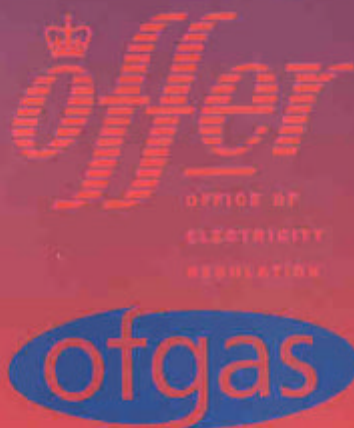


May 1999



Social Action Plan: Discussion Document

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FOREWORD

One of the six priorities which have been established for the new regulatory organisation for electricity and gas is the social and environmental impact of our regulation. The impact of regulation on the fuel poor is an important part of that priority.

The scale of the problem of the fuel poor is awesome: in excess of four million households, more than one in five of all households, suffer from fuel poverty. It is a particular problem for pensioners, who make up almost half the fuel poor, and for single parent families. It results in discomfort and ill health. It is associated with poor housing and low incomes. It is a problem to which nobody should be indifferent.

The scale and nature of the problem calls for a response from many organisations. These include Government, particularly the Department of Environment, Transport and the Regions and Department of Social Security, local authorities, suppliers of electricity and gas, providers of banking services to low income households, voluntary organisations and consumer representatives, as well as OFFER and Ofgas.

This document is intended to advance the process of identifying what are the causes of fuel poverty; who it affects; the various bodies and organisations which can contribute to reducing or eliminating it; and what the special contribution of regulation should be. It is designed to raise questions and promote debate. It aims to achieve effective action.



CALLUM McCARTHY

DIRECTOR GENERAL OF ELECTRICITY AND GAS SUPPLY

May 1999

Contents

| | Page |
|--|------|
| Foreword by the Director General | 2 |
| 1. Introduction | 5 |
| 1.1 Background | 5 |
| 1.2 Structure of Document | 7 |
| 2. The Context for Action | 8 |
| 2.1 Scope of the Plan | 8 |
| 2.2 Major Sources of Disadvantage | 8 |
| 2.3 Disadvantaged Customers and the Electricity and Gas Markets | 12 |
| 2.4 Competition, Prices and Disadvantaged Customers | 19 |
| 2.5 Customer Awareness | 23 |
| 2.6 Interim Conclusions | 25 |
| 3. Statutory and Licensing Background | 27 |
| 3.1 Duties of the Director General of Electricity Supply and of Gas Supply | 27 |
| 3.2 Functions of the Director | 28 |
| 3.3 Supplier Obligations | 28 |
| 3.4 The Government's Proposals for Change | 33 |
| 4. Principles Underpinning The Revised Plan | 35 |
| 4.1 Background | 35 |
| 4.2 Requirement to Revise the Existing Action Plans | 35 |
| 4.3 Focus of the Revised Plan | 35 |
| 4.4 The Plan in the Context of Regulation and Competition | 36 |
| 4.5 Summary | 37 |
| 5. Consideration of Possible Measures | 38 |
| 5.1 Identifying Areas for Action | 38 |
| 5.2 Payment Difficulties | 38 |

| | | |
|------------|---|----|
| 5.3 | Hard to Heat Homes | 56 |
| 5.4 | Special Needs | 60 |
| 5.5 | Reliance on Prepayment Meters | 62 |
| 5.6 | Access to Competition | 65 |
| 5.7 | Information | 69 |
| 6. | Towards A New Plan | 73 |
| 6.1 | Prioritisation | 73 |
| 6.2 | Organisation, Timetable And Review | 78 |
| 6.3 | Overview of Issues | 79 |
| Appendix A | ‘Electricity Competition Review’, A Research Study Conducted for OFFER by MORI (forthcoming publication) ‘Gas Competition Review’, MORI, November 1998’ Customer Characteristics by Payment Method, Research Study Conducted for Ofgas by MORI, December 1998 | 81 |
| Appendix B | Examples of Innovative Energy Supply Schemes to Assist Disadvantaged Consumers | 82 |
| Appendix C | Licence Conditions Relating to Customer Safeguards | 83 |
| 1. | Gas | |
| 2. | Electricity | |

1. Introduction

1.1 Background

In March 1998, in its Green Paper “A Fair Deal For Consumers”¹, the Government asked the electricity and gas regulators, in consultation with customer groups and in partnership with the gas and electricity industries, to prepare an industry-wide action plan to ensure efficiency, choice and fairness in the provision of gas and electricity to disadvantaged customers. The Government’s objective is to ensure that the economic benefits of liberalisation are spread fairly amongst everyone, including the most vulnerable customers. The Government asked that the Plan establish timescales and identify milestones to be achieved over the next five years so that progress in assisting such customers can be judged against measurable targets.

The Government proposed five broad objectives for the Plan:

- ◆ to reduce the capital, maintenance and transaction costs and improve the operational and servicing efficiency of all meters, and particularly prepayment meters;
- ◆ to increase the choice of tariffs and payment mechanisms offered to disadvantaged customers;
- ◆ to help consumers in managing debt;
- ◆ to ensure that clear, consistent and acceptable procedures are in place to govern interruptions of supply for prepayment meter customers; and
- ◆ to ensure that competition in the supply market does not result in disproportionate gains to one group of customers at the expense of others.

OFFER and Ofgas published their plans in June 1998². However, in the limited time that was available for their production, it was not possible to consult fully with companies, consumer representatives and others concerned with the interests of disadvantaged customers. Since then, through discussions with a number of organisations, OFFER and Ofgas have become aware that there are areas in which the plans could be strengthened.

¹ CM 3898.

The appointment of a new combined energy regulator from 1 January 1999, and the merger of the two offices from March 1999, provide an opportunity for review and the production of a revised combined Plan. The review also provides an opportunity to take into account issues arising from the Government's inter-departmental review of fuel poverty policy; to reflect the results of the surveys carried out for OFFER and for Ofgas by MORI into the impact of competition; and most importantly to consult widely on the issues affecting disadvantaged customers and the potential measures to address them. The need to listen to gas and electricity suppliers and those who work with, and represent, disadvantaged customers is recognised as an essential early step. Enough time will be allowed during the review both to consider responses carefully and to discuss them with the relevant parties.

The Director General announced in February 1999 that he would be carrying out a review of the plans. OFFER/Ofgas are delighted that Dr Gill Owen agreed to advise on the production of this document and more generally on the conduct of the review. In making his announcement of the review, the Director General said that his intention was to set the contribution of the regulatory office in the context of what the Government as a whole can do; to assess rigorously where the regulator can and cannot expect present policies to deliver benefits for the fuel poor; and to identify where the regulator and others can act effectively to bring further benefits. The Director General acknowledged that resolving the problems faced by disadvantaged and vulnerable customers cannot be achieved by the regulator alone. There are references in this document therefore to the key role that other bodies should play.

OFFER and Ofgas would welcome comments on the issues, questions and areas for action described in this document. In particular, we would welcome suggestions for practical solutions to address specific problems.

This is very much a discussion document. The comments and suggestions received will help OFFER and Ofgas develop their proposals for the way forward for the next five years. The resulting proposals will also be consulted upon before the revised Social Action Plan is finally prepared and published. Following these consultation processes, the aim is to produce a joint revised Action Plan later in 1999. This will not however delay measures that need to be undertaken now as part of the regulatory office's on-going work on behalf of disadvantaged customers.

² "The Social Dimension: Action Plan, OFFER and Ofgas Proposals, June 1998"

1.2 Structure of Document

The chapters in this consultation document are structured in the following way:

Chapter 2 provides analysis of disadvantaged customers and the problems they face in relation to gas and electricity. This analysis sets the context within which the Plan will work.

Chapter 3 explains the regulatory framework established by the Gas Act 1986 and the Electricity Act 1989 and the associated licence regimes. It also describes the protection that the current regulatory regime affords customers, for example via price controls.

Chapter 4 sets out the principles which will underpin the new Plan.

Chapter 5 reviews the areas in which the action Plan may be able to help.

Chapter 6 discusses the need for prioritisation; and proposes a timetable for the preparation of the Plan and how it will be monitored and reviewed.

It would be helpful to receive your reply by 16 July 1999. Responses should be sent to:

Tony Boorman
Deputy Director General
OFFER/Ofgas
Hagley House
Hagley Road
Birmingham
B16 8QG
or by e-mail: Tboorman@offer.gov.uk

It is open to all respondents to mark all or part of their responses as confidential. However, we would prefer, as far as possible, all responses to be provided in a form that can be placed in the OFFER and Ofgas libraries. If you have any queries concerning this document Dave Barnes (0171 932 1634) or Gerald Jago (0121 456 6245) would be pleased to help.

2. The Context For Action

The effectiveness of the Social Action Plan will depend upon identifying clearly which customers are disadvantaged/vulnerable and the nature of their disadvantage. This chapter therefore:

- attempts to define broadly the customers to be covered in the Plan;
- identifies the major sources of disadvantage; and
- considers how such customers are faring in the electricity and gas markets, and the particular problems they face.

2.1 *Scope of the Plan*

People can experience disadvantage in a number of different, often overlapping ways. They may have a low income, or live in homes which are difficult to heat, or be disabled. They may become disadvantaged as the result of a sudden and unforeseen change in circumstances. It is not possible to derive one simple definition of disadvantage, and a Plan designed to meet the needs of disadvantaged customers has to recognise this. Any general definition therefore needs to be sufficiently broadly drawn to ensure that all areas of vulnerability are included.

In considering areas for action by the regulator to assist disadvantaged customers, we have therefore taken disadvantaged customers to include any customer who for any reason is unable to access, or has significant difficulties in accessing or maintaining, the electricity or gas supplies and services they require to meet their household needs, including reasonable access to the benefits of the liberalised energy market.

We would welcome views on whether this is an appropriate definition for the purposes of the Plan.

2.2 *Major Sources of Disadvantage*

A primary source of disadvantage is lack of, or low, income. Customers so disadvantaged are generally defined as being entitled to claim one or more of the main welfare benefits, such as income support or housing benefit. Published figures and studies indicate the scale of the

problem³. Figures for 1996/97 show that income support, for example, was received by 14 per cent of all family types; by 62 per cent of single parent families; and by 25 per cent of single female pensioners. Similar proportions were in receipt of housing benefit. In early 1998 (the latest for which figures are available), there were about 3.2 million workless households in the UK (households where at least one person was of working age).

Work by Waddams Price and Biermann⁴ confirms this broad picture. Table 2.1 shows that the poorest group (the first income decile) contains high proportions of single parent households and households headed by an unemployed person. The second decile is dominated (52 per cent) by retired households (compared with 26 per cent for the population as a whole).

Table 2.1 - Household Characteristics of First Income Decile

| Household characteristics | % in: | |
|------------------------------|--------------|-----------------------|
| | first decile | population as a whole |
| unemployed head of household | 43 | 14 |
| single parent households | 28 | 6 |
| retired including pensioners | 14 | 26 |

Source: Waddams Price and Biermann

Many disadvantaged customers face problems in their use of gas and electricity because they live in homes which are difficult and/or expensive to heat. This is a particular problem for people who are at home all day because they are retired, chronically sick or disabled, have young children or are unemployed. Some disadvantaged customers may have especially high needs for heating and hot water.

For many disadvantaged customers the key problem is fuel poverty, that is the inability to afford adequate energy use. Actual expenditure on energy is not always an accurate indicator of fuel poverty because some households spend less on fuel than is necessary to heat their homes adequately. The Government's definition of fuel poverty therefore focuses on how much households would need to spend to achieve a satisfactory level of heating. It defines a

³ Social Trends 29, 1999 edition, Office for National Statistics

⁴ Fuel Poverty in Britain, Expenditure on Fuels 1993-94 to 1995-96, Catherine Waddams Price and Andreas Biermann, Centre for Management Under Regulation, Warwick Business School, University of Warwick; November 1998. Published by the Gas Consumers Council, December 1998.

household as being fuel-poor if more than 10 per cent of its net income has to be spent for this purpose. Figures for the number of households in fuel poverty vary. However, provisional data from the 1996 English House Condition Survey Energy Report suggests that, on this basis, at least 4.3 million households in England are in fuel poverty. Of these, some 800,000 households need to spend in excess of 20 per cent (those in the worst degree of difficulty) to heat their homes adequately.

Tables 2.2 and 2.3 indicate the incidence of fuel poverty by tenure and by household type. As a proportion of housing in a sector, the incidence of fuel poverty is greatest in the privately rented and local authority sectors (35-39%); amongst households consisting of single persons, aged 60 years or more; and amongst lone parents with children, and adult households (35-40%). Care needs to be exercised in interpreting these figures. For example, although fuel poverty is less common amongst owner occupiers compared with other forms of tenure, over half the fuel poor are owner occupiers.

Table 2.2 - Fuel Poverty Estimates By Tenure, 1996

Households ('000) analysed by % of income needed to be spent on fuel

| Tenure: | < 10% (1) | 10-20% (2) | > 20% (3) | Total households (1) + (2) + (3) | Total Fuel Poor (2) + (3) | Tenure Type as % of Total Households | Fuel Poor as % of total Fuel Poor |
|--------------------------------|--------------|---------------|--------------|--|---------------------------------|--|---|
| Owner occupier | 11,312 | 1,886 | 383 | 13,581 | 2,269 | 69.1% | 51.9% |
| | 83.3% | 13.9% | 2.8% | 100% | 16.7% | | |
| Private Rented | 1,108 | 509 | 200 | 1,817 | 709 | 9.3% | 16.2% |
| | 61.0% | 28.0% | 11.0% | 100% | 39.0% | | |
| Local Authority | 2,170 | 1,007 | 163 | 3,340 | 1,169 | 17.0% | 26.7% |
| | 65.0% | 30.1% | 4.9% | 100% | 35.0% | | |
| Registered Social Landlords | 680 | 196 | 29 | 905 | 225 | 4.6% | 5.2% |
| | 75.1% | 21.6% | 3.3% | 100% | 24.9% | | |
| All Tenures | 15,271 | 3,598 | 775 | 19,643 | 4,372 | 100% | 100% |
| | 77.8% | 18.3% | 3.9% | 100% | 22.2% | | |

Source: 'Fuel Poverty: The New HEES - a programme for warmer, healthier homes', DETR, May 1999

The fuel poor are much more likely than the better off to live in properties which are difficult and expensive to heat. In 1991, the mean energy rating of the homes of households in England

needing to spend more than 20 per cent of income on fuel was 17-24 SAP⁵ points, against an average rating for all housing of 35 points and an average rating for the “fuel rich” (those needing to spend less than 5 per cent of income) of 42.

Table 2.3 - Fuel Poverty Estimates by Household Type, All Tenures 1996
Households ('000) analysed by % of income needed to be spent on fuel

| Household type | < 10% (1) | 10-20% (2) | > 20% (3) | Total Households (1) + (2) + (3) | Total Fuel Poor (2) + (3) as % of type | Tenure Type as % of Total Households | Fuel Poor as % of total Fuel Poor |
|--|-----------------|----------------|--------------|--|---|--|---|
| One person, aged 60 years or more | 1,460 48.0% | 1,320 43.4% | 264 8.7% | 3,044 100% | 1,584 52.1% | 15.5% | 36.2% |
| One person, aged under 60 years | 1,583 69.5% | 454 19.9% | 242 10.6% | 2,279 100% | 696 30.5% | 11.6% | 15.9% |
| Couple aged 60 years or more, no children | 2,421 80.3% | 558 18.5% | 37 1.2% | 3,016 100% | 595 19.7% | 15.4% | 13.6% |
| Adult Households | 808 60.4% | 378 28.3 | 151 11.3% | 1,337 100% | 529 39.6% | 6.8% | 12.1% |
| Lone parent with child(ren) | 827 64.3% | 423 32.9% | 36 2.8% | 1,286 100% | 459 35.7% | 6.5% | 10.5% |
| Couple with child(ren) | 4,740 94.6% | 250 5.0% | 17 0.3% | 5,007 100% | 267 5.3% | 25.5% | 6.1% |
| Younger couple, no children | 3,432 93.4% | 215 5.9% | 27 0.7% | 3,674 100% | 242 6.6% | 18.7% | 5.5% |
| Total households | 15,271 77.8% | 3,598 18.3% | 774 3.9% | 19,643 100% | 4,372 22.3% | 100% | 100% |

Source: see Table 2.2

Individual households whose fuel poverty is caused or made worse by insufficient income will find an increase in income helpful, but income-based assistance does not take account of energy efficiency, dwelling size, tenure and household type. Investment in housing has long-lasting effects and can be targeted on the worst housing, either in terms of general fitness or poor energy efficiency in particular. People who have had Home Energy Efficiency Scheme (HEES) grants take between 50-80 per cent of the potential savings in increased comfort and 20-50 per cent in reduced fuel consumption. Reduced energy consumption not only gives the

⁵ The SAP energy rating system was devised for the DETR to assess the energy efficiency of housing. Ratings range on a scale from 1 (the worst) to 100 (the best) and measure the cost of heating a home to specified standards. New homes built to current building regulations standards have a rating of at least 70.

household more disposable income and reduces the likelihood of payment problems and fuel debt, but also brings environmental benefits. However, better energy efficiency alone could not eradicate fuel poverty because some people have very low incomes, some homes are under-occupied and some of the existing housing stock cannot be made energy efficient.

Disadvantage can also arise from other causes including disability. Customers may also have disabilities arising from health problems or from age, or be disadvantaged because of their ethnic background. A recent study by the Office of Fair Trading (OFT) on vulnerable customer groups⁶ includes statistics covering the health of respondents to the General Household Survey. This found that 32 per cent of all adults said they had some long-standing illness or disability, with the incidence increasing with age - from roughly one fifth under the age of 35 to almost three fifths over 65.

Language barriers can also impact upon vulnerability. The same OFT study quotes results from a 1992 Health Education Authority Study, 'Black and Ethnic Minority Health and Lifestyle Survey'. For example, of three South Asian groups studied, Bangladeshis, and in particular older women, were least likely to be able to speak English. Fifty-one per cent of Bangladeshi men aged 50 and over could speak English compared with only 10 per cent of women in the same age group.

Vulnerability can also arise from unexpected events. A sudden reduction in income or other unforeseen or unplanned changes in circumstances can have a dramatic effect on a household's ability to manage its affairs, at least in the short to medium term.

2.3 *Disadvantaged Customers and the Electricity and Gas Markets*

In its Green Paper on utility regulation⁷, the Government set out its concerns that the problems faced by disadvantaged customers were compounded by the prices charged for, and arrangements made for access to, energy supplies and services. In particular, there was concern that such customers tended to use more expensive payment methods than other customers (in particular, prepayment meters) and that they were less likely to benefit from the developing competitive market.

⁶ Vulnerable Customers and Financial Services: The Report of the Director General's Inquiry, Office of Fair Trading, January 1999.

⁷ CM3898

2.3.1 Payment Issues

All gas and electricity suppliers are required to have available a range of payment methods and are also required to offer payment at reasonable frequencies. In practice, suppliers accept payment: by quarterly or monthly direct debit; quarterly, by cheque or postal order; over the counter in cash or cheque; by prepayment (although gas suppliers are required only to offer a prepayment meter as an alternative to a cash deposit and as an option prior to disconnection); and by 'fuel direct' (deductions direct from benefit). Payment by cash or cheque can in most cases be made through the Post Office (sometimes at a charge to the customer) or free through particular banks. In addition, some suppliers are using the expanding PayPoint network, which allows customers to make frequent payments at no charge to the customer.

Paying by direct debit costs customers less than prepayment and other payment methods. Electricity franchise customers, with a prepayment meter and using an average amount of energy, typically pay up to about £25 a year more for electricity (this varies between Public Electricity Supplier areas) and about £40 more in the case of a British Gas (BGT) customer (depending on the level of consumption). Customers with gas and electricity prepayment meters could therefore pay up to some £65 a year more than an equivalent direct debit customer. Customers of non-incumbent suppliers (second-tier suppliers in the electricity market and competitors to BGT in the gas market) may see wider differentials than this (see Table 2.11 which averages prices of all suppliers).

Information on payment methods from recent research by MORI, for both OFFER and Ofgas, is summarised in Table 2.4 (see also Appendix A). This confirms that low income customers tend to use payment methods with higher charges and are less likely than better-off households to use those which have lower charges, such as direct debit. In electricity, the higher charges associated with prepayment meters are paid by some 45 per cent of customers in receipt of benefit (by comparison with 3 per cent of AB households). However, it is noteworthy that those in receipt of state pensions - about 50 per cent of the fuel poor - make relatively little use of prepayment meters. Similar differences are evident in gas, although they are less marked (prepayment meters are used by 17 per cent of customers in receipt of benefit by comparison with 2 per cent of AB households). At the same time, it is clear that disadvantage and payment method are not an exact fit. MORI's results indicate that a reasonably high proportion of DE households pay their electricity and gas bills by direct debit/standing order (25 per cent gas, 13 per cent electricity).

Table 2.4 - Payment Method and Customer Type

A. Electricity

| | Direct Debit or standing order | Quarterly cash / cheque | Prepayment meter | Regular cash scheme | Budget Plan | % of total sample |
|---|--------------------------------|-------------------------|------------------|---------------------|-------------|-------------------|
| i) % in category using payment method: | (432) | (320) | (295) | (39) | (69) | |
| All (1212) | 33 | 29 | 25 | 3 | 6 | 100 |
| Social class E (409) | 8 | 27 | 46 | 4 | 9 | 15 |
| One parent families (32) | 17 | 17 | 47 | 6 | 12 | 7 |
| HH income under £5k per year (173) | 10 | 25 | 46 | 6 | 7 | 10 |
| Receiving benefits (455) | 13 | 21 | 45 | 4 | 12 | 27 |
| Difficulty paying (472) | 24 | 25 | 37 | 4 | 6 | 38 |
| State pension only (201) | 24 | 38 | 12 | 4 | 10 | 11 |
| No bank/building society account (201) | 0 | 17 | 59 | 5 | 11 | 12 |
| Poor housing (62) | 16 | 20 | 51 | 3 | 10 | 4 |
| ii) % of payment method by class: | | | | | | |
| Social class AB | 29 | 24 | 2 | 0 | 4 | 17 |
| Social class C1 | 31 | 20 | 17 | 15 | 34 | 24 |
| Social class C2 | 29 | 27 | 31 | 44 | 18 | 29 |
| Social class DE | 12 | 29 | 50 | 41 | 44 | 30 |

B. Gas

| | | | | | |
|---|--------|-------|-------|-------|-----|
| i) % in category using payment method: | (1081) | (817) | (176) | (339) | |
| All (2511) | 43 | 34 | 7 | 12 | 100 |
| Social class DE (917) | 25 | 36 | 14 | 20 | 30 |
| Receiving benefits (672) | 23 | 33 | 17 | 21 | 24 |
| State Pension only (383) | 34 | 46 | 3 | 13 | 16 |
| No bank/building society account (217) | - | 30 | 31 | 30 | 7 |
| ii) % of payment method by class: | | | | | |
| Social class AB | 27 | 16 | 2 | 7 | 19 |
| Social class C1 | 30 | 22 | 13 | 16 | 24 |
| Social class C2 | 26 | 32 | 22 | 27 | 28 |
| Social class DE | 17 | 31 | 63 | 49 | 30 |

Source: 'Electricity Competition Review', Research Study Conducted for OFFER by MORI (forthcoming publication);

Gas Competition Review, MORI, November 1998, and 'Customer Characteristics by Payment Method', Research Study conducted for Ofgas by MORI, December 1998

Access to payment by direct debit requires a customer to have a bank or suitable building society account. MORI, in its recent survey for OFFER, found that many disadvantaged customers do not have such an account and are therefore prevented from paying by direct debit (Table 2.5). It was also the case, however, that many customers who do have bank accounts do not, for whatever reason, use them to access the cheaper method of payment. Recent research

for the Office of Fair Trading⁸ also found that, while only 12 per cent of all households have no current account, the figure rose to 38 per cent for households on very low income, and to some 25 per cent for single parents and single pensioners.

Table 2.5 - Electricity Customers with Bank/Building Society Accounts

| Social Class | % of customers with: | | | |
|---------------------|----------------------|--------------------------|---------|------------|
| | bank account | building society account | neither | not stated |
| AB (145) | 94 | 34 | 1 | 2 |
| C1 (250) | 93 | 35 | 5 | - |
| C2 (229) | 87 | 38 | 9 | 0 |
| DE (588) | 63 | 22 | 28 | 3 |
| E (409) | 47 | 16 | 44 | 2 |
| ABC1 (395) | 93 | 34 | 4 | 0 |
| C2DE (817) | 75 | 30 | 18 | 1 |
| Working * (551) | 90 | 37 | 6 | 1 |
| Not working * (601) | 73 | 25 | 19 | 1 |

Source: 'Electricity Competition Review', Research Study Conducted for OFFER by MORI (forthcoming publication)

* refers to the head of household

2.3.2 Disconnections, Prepayment Meters and Debt

There have been significant changes in recent years in the numbers of customers compulsorily disconnected for non-payment. There has also been a considerable increase in the number of customers using prepayment meters (Tables 2.6 and 2.7).

Table 2.6 - Numbers Of Domestic Customers Disconnected for Debt

| Year ending December | Electricity | | Gas | |
|----------------------|-------------|-----------------------|------|-----------------------|
| | '000 | % Change 1998 on 1991 | '000 | % Change 1998 on 1991 |
| 1991 | 48 | | 18.6 | |
| 1995 | 0.8 | | 14.5 | |
| 1998 | 0.4 | -99.2 | 29.5 | + 59 |

⁸ Consumer Survey, January 1999

Table 2.7 - Numbers Of Prepayment Meters

| Year ending December | Electricity > | | Gas | |
|-------------------------|---------------|--------------------------|--------|--------------------------|
| | '000 > | % Change 1998 on 1991 | '000 > | % Change 1998 on 1991 |
| 1991 | 1,153 | | 736 | |
| 1995 | 3,232 | | 850 | |
| 1998 | 3,704 | +221% | 1427 > | +94 |

Note: Numbers are rounded to the nearest thousand

Whilst the overall level of disconnections for debt is at a low level (the level in gas has risen in the last two years), debt and how this is dealt with by the companies remain an issue. OFFER statistics⁹ show that some 300,000 prepayment meters were installed in 1994 to recover debt, falling to about 225,000 in 1998. One of the major problems in gas, where disconnections are currently on a rising trend, remains lack of contact between the supplier and the customer. British Gas statistics for 1998 show that in 84 per cent of cases where gas customers are disconnected for debt, no contact had been established.

The Government's Green Paper focused particularly on the problems faced by customers who use prepayment meters. It recognised, however, that there was not a straightforward relationship between the fuel poor and prepayment meter use. Recent research by MORI for OFFER confirms a high level of satisfaction amongst customers with this method of payment, with many positively preferring prepayment meters as an aid to budgeting (see Table 2.8).

However, a significant proportion of prepayment meters are used by disadvantaged customers and concerns have been raised (in addition to the higher costs of prepayment meters) about self-disconnection and access to the necessary associated services.

Table 2.8 - Satisfaction with Method of Payment; Reason for Preferring a Prepayment Meter

| Satisfaction with Method of Payment | | | Reason for Preferring a Prepayment Meter (%) | |
|-------------------------------------|------------|-----------|---|----|
| % | Customers | | | |
| | All (1212) | PPM (295) | | |
| Totally satisfied | 37 | 31 | Easy /convenient | 47 |
| Very satisfied | 41 | 37 | Best way of budgeting | 38 |
| Fairly satisfied | 15 | 23 | Prefer to have control over payments | 25 |
| Neither/don't know | 5 | 3 | Prefer to pay for what I use when I use it | 20 |
| Satisfied | 93 | 91 | Suits the way I prefer to pay | 19 |
| Dissatisfied | 3 | 6 | Base: all prepayment meter customers who know it is not the cheapest payment method (105) | |
| Base: all respondents (1212) | | | | |

Source: 'Electricity Competition Review', Research Study Conducted for OFFER by MORI (forthcoming publication)

Interruptions to supply can result from a number of causes:

- ◆ lack of money - customers might use some form of rationing as a means of managing on a restricted budget or might self-disconnect temporarily when they actually run out of money at the end of the week;
- ◆ difficulties getting to a charging point (proximity, hours of opening);
- ◆ charging point being out of order; and
- ◆ meter/card fault or breakdown.

There have been a small number of research studies into self-disconnection and they have tended to be small scale. A study by Doble¹⁰ into gas self-disconnection suggests that in general most customers do not self-disconnect on a regular basis. Of those surveyed, 33 per cent reported self-disconnection at some time in the previous year, on average around 4 times a

⁹ Public Electricity Suppliers' Customer Accounting Statistics, Quarter ending December 1998

¹⁰ Doble, M. 'A regulatory policy for self-disconnection - an examination of the reasons for and implications of prepayment meter stoppages.' Centre for Management under Regulation. Research Paper Series 2/99

year. However, the majority were under 7 hours. CSE/NRFC¹¹ found that 75-80 per cent of gas and electricity prepayment meter users had 3 or fewer interruptions, but that 15-25 per cent experienced interruptions 4 times or more. CSE/NRFC found that around 50 per cent of interruptions were for 5-24 hours and 20-30 per cent for 4 hours or less and that 10-25 per cent were for more than one day, with this being much more likely for gas. Taking disconnections as a whole, Doble found that 20 per cent were for 7-24 hours and 17 per cent for over 24 hours.

There were considerable differences in the reasons given for interruptions. CSE/NRFC found that 60 per cent cited lack of money (not specified whether this was waiting for benefits/wages or rationing), but only 15 per cent of the short duration and 25 per cent of the longer duration interruptions cited "waiting for benefits/wages" in the Doble study. Problems with charging outlets being closed were cited by between 5 per cent and 30 per cent of respondents (depending on the study - in the Doble study this was more of a problem for those with supply interrupted for longer periods). 20 per cent of the CSE/NRFC sample cited faulty meters/cards but this is not mentioned in the Doble study. Between 6-20 per cent cite problems getting out due to disability or illness.

The recent MORI study for OFFER tends to confirm that, whilst self-disconnection because of lack of money is a problem for some, the majority (60 per cent) of prepayment meter customers had not run out of electricity in the previous 12 months; and a further 18 per cent had run out once or twice (Table 2.9). Of those who did run out, 34 per cent were off supply for less than one hour. The main reasons for loss of supply were either insufficient money (21 per cent) or the distance to recharging facilities, being too far or the nearest being closed (18 per cent). Practical problems may be a particular concern for people living in rural areas or on housing estates without reliable, affordable transport, or for people with disabilities or long term sickness. Whilst problems which are due to low income are a matter for Government, there are a number of practical issues which might bear closer scrutiny. The MORI study shows, for example, that 43 per cent of customers thought there were insufficient accessible places to obtain tokens/cards or get keys charged for their electricity meters.

¹¹ 'Counting the Hidden Disconnected', a research study conducted by Centre for Sustainable Energy/National Right to Fuel Campaign - published June 1998

Table 2.9 - Incidence And Duration Of Self-Disconnection

Q In the last twelve months, how many times have you run out of electricity?

Q On average, how long were you without electricity each time?

| Frequency | % | Duration | % |
|--|----|---|----|
| Once | 9 | Less than one hour | 34 |
| Twice | 9 | One to two hours | 25 |
| Three times | 3 | Two to five hours | 9 |
| Four times | * | Five to ten hours | 13 |
| Five or more times | 7 | Ten to twenty hours | 11 |
| | | More than twenty hours | 8 |
| Ever | 27 | | |
| None | 60 | Over two hours | 41 |
| Don't know | 13 | Over ten hours | 19 |
| * = less than 0.5% but greater than zero | | Base: All electricity prepayment meter customers who have disconnected in past 12 months (90) | |
| Base: All prepayment meter customers (295) | | | |

Source: 'Electricity Competition Review', Research Study Conducted for OFFER by MORI (forthcoming publication)

2.4 Competition, Prices and Disadvantaged Customers

2.4.1 Overview of Market

Since the introduction of competition in gas supply in 1996, some 4 million customers have switched from British Gas Trading (BGT). In electricity supply, about 1.5 million have switched to date. Switching in electricity is continuing at a rate of up to 100,000 a week and in gas 40,000. In the case of gas, households in socio-economic groups D and E have been more fully represented among those switching suppliers than they are in the population as a whole. Table 2.10 shows that: 32 per cent of those switching were Ds or Es, compared with 30 per cent in the population as a whole; by contrast, ABs represented 14 per cent of those switching, but 19 per cent of the population. Electricity is at a much earlier state of competition. To date, there are lower numbers of switchers than in gas, but information from MORI suggests that there are fewer switchers in lower income groups.

However, for two key reasons evidence on switching levels does not necessarily mean that low income and other disadvantaged households have benefited directly from competition. First,

although the DE socio-economic categories are to some extent a proxy for low income and disadvantage, they are not conclusive and information on income levels (and perhaps other factors such as disability) would provide for a more robust assessment. Second, it is not known how much households which have switched supplier have benefited from doing so in terms of the price paid for gas or electricity or the quality of the service received. It would be necessary to identify the before and after payment methods, tariffs and service standards to enable a judgement on benefits to be made.

Table 2.10 - Characteristics Of Customers Switching Supplier

| % | Gas | | Electricity | |
|--|-----------|--------------|-------------|--------------|
| | Switchers | Total Sample | Switchers | Total Sample |
| Social Class | | | | |
| AB | 14 | 19 | 32 | 17 |
| C1 | 26 | 24 | 24 | 24 |
| C2 | 28 | 28 | 20 | 29 |
| DE | 32 | 30 | 25 | 30 |
| Payment of Bill | | | | |
| Direct Debit / SO | 51 | 43 | 66 | 33 |
| Prepayment Meter | 5 | 7 | 7 | 25 |
| Working Status of Head of Household | | | | |
| Working | 57 | 57 | 59 | 51 |
| Not Working | 43 | 43 | 41 | 43 |
| Financial Status | | | | |
| Has Bank/ Building Society account | 83 | 82 | 93 | 87 |
| Neither | 7 | 8 | 6 | 12 |

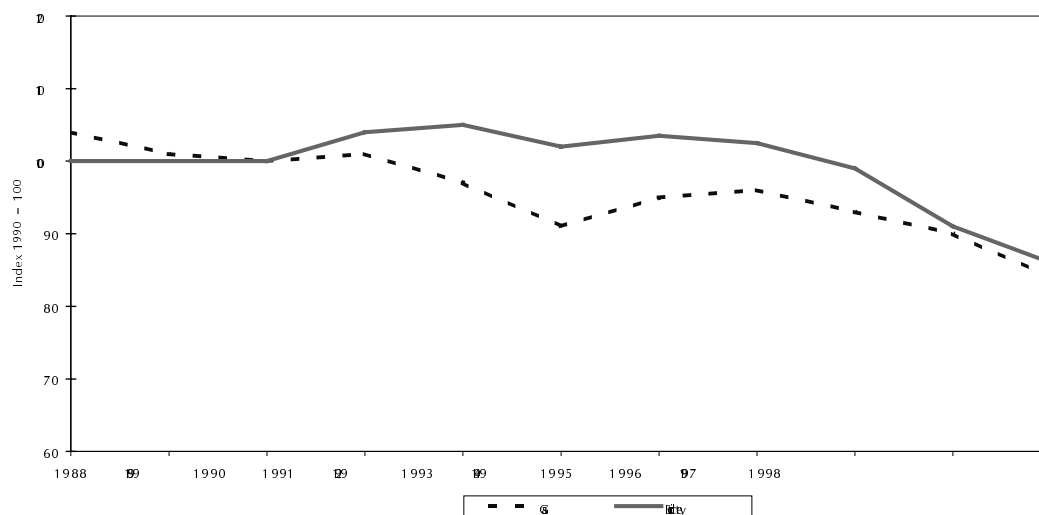
Sources: 'Gas Competition Review', MORI, November 1998
 'Electricity Competition Review', Research Study Conducted for OFFER by MORI (forthcoming publication)

2.4.2 Prices

The overall trend in average gas and electricity prices (in real terms) to all customers is shown in Figure 2.1. Table 2.11 compares prices in cash and real terms between 1990 and 1998 for different payment methods. This indicates that, whilst prices for all payment methods have reduced, the differential between payment methods has widened somewhat.

For direct debit and quarterly billed customers, the prices charged by new entrants compare favourably with those offered by the incumbent suppliers (BGT in gas, and the local Public Electricity Suppliers in electricity). Almost all competitors offer savings on these payment methods (although the extent of savings varies by supplier, fuel type and, in electricity, by area).

Figure 2.1 - Average Domestic Electricity and Gas Prices, 1988 - 1998 in real terms



Source: DTI

Table 2.11 - Average ^(A) UK Domestic Gas and Electricity Bills (including VAT); for consumption ^(B) of 18,000 kWh and 3,300 kWh respectively¹².

| | Cash Terms > | | | | Real 1995 terms ^(C) | | | |
|----------------------|--------------|--------|--------|--------------------------|--------------------------------|--------|--------|-------------------------|
| | 1990 | 1995 | 1998 | 1998 differential to PPM | 1990 | 1995 | 1998 | per cent change 1995-98 |
| Electricity | | | | | | | | |
| Prepayment | £264 | £319 | £283 | - | £314 | £319 | £260 | - 18.5 |
| Quarterly credit | £245 > | £300 > | £267 > | £16 or 6% > | £291 > | £300 > | £245 > | - 18.2 |
| Monthly Direct Debit | na > | £295 > | £259 > | £24 or 9% > | na > | £295 > | £238 > | - 19.3 |
| Gas | | | | | | | | |
| Prepayment | £303 > | £347 > | £331 > | - > | £360 > | £347 > | £303 > | - 12.5 |
| Quarterly Credit | £285 > | £327 > | £315 > | £16 or 5% > | £338 > | £327 > | £289 > | - 11.6 |
| Monthly Direct Debit | na > | £311 > | £277 | £53 or 19% | na | £311 | £254 | -18.3 |

¹² Source: DTI

Notes:

- (A) Weighted average of calendar year bills by overall customer numbers per supplier. Charges and differentials between payment types can vary between companies. Prior to 1996 all gas was supplied by British Gas; competitors are included in 1998. All bills include standing charges and are weighted to represent seasonal fuel use. Direct Debit discounts were not available in 1990.
- (B) Consumption for gas prepayment users is typically lower, around 12,000 kWh. Comparisons are shown at the same consumption level for consistency.
- (C) Adjusted for inflation as measured by the GDP deflator.

For prepayment meter customers, fewer suppliers offer savings and the savings tend to be lower than those for other payment methods. In gas, 5 suppliers offer prices below those of BGT. In electricity there are, on average, three suppliers in each PES area which offer lower prepayment meter prices than the incumbent. Other competitors charge the same or more: on average, there are two suppliers in each PES area which charge at least £40 a year more than the local PES.

2.4.3 Payment Methods

A range of payment methods is available from competitive suppliers. Table 2.12 compares methods of payment in gas and electricity between incumbent and new suppliers.

Table 2.12 - Payment Methods Available

| | Gas | | Electricity | |
|---|-----|-------------|------------------------------|------------------------|
| | BGT | Competitors | Public Electricity Suppliers | Second Tier Suppliers* |
| Total number of suppliers | 1 | 22 | 14 | 17 |
| Monthly direct debit (equal instalments) | All | All | All | All |
| Monthly standing order (equal instalments) | All | - | 13 | 8 |
| Quarterly variable direct debit (based on actual consumption) | All | 6 | All | 14 |
| Payment on receipt of quarterly bill | All | All | All | All |
| Payment on receipt of quarterly bill with discount for prompt payment | All | 1 | 4 | 5 |
| Frequent payment instalments | All | 3 | All | 13 |
| Fuel direct (payments made by DSS) | All | All | All | All |
| Prepayment meter | All | All | All | All |

Source: Ofgas Competitive Market Review, October 1998
Data collected by OFFER

* Competing suppliers, including PESs operating out of area

BGT offers all the payment methods shown in Table 2.12 as do virtually all Public Electricity Suppliers (with the exception of discounts for prompt payment). Competitors in the gas and electricity markets offer a variety of payment methods, including monthly direct debit, payment on receipt of quarterly bill and by prepayment meter. Frequent payment methods are less widespread amongst BGT's competitors, with three offering this method of payment.

2.4.4 Tariff Structures

In the early stages of competition, the structure of tariffs of new suppliers has broadly reflected that of the incumbent supplier. There are, however, examples of the market providing innovative tariffs for lower income customers. ScottishPower and Energy Action Grants Agency (Eaga) are collaborating on a pilot scheme to target low income households with an existing debt who may be excluded from offers in the competitive market. Ebico (in association with Southern Electric Gas) has launched the Equigas tariff, which provides a single unit price for all customers regardless of how they pay their bills and has no standing charge. The St Pancras Housing Association provides electricity and heating via a CHP system to two blocks of flats near Euston Station; the tariff has no standing charge. Further details of these developments are given in Appendix B.

2.5 Customer Awareness

2.5.1 Awareness and Understanding of Competition

An important pre-requisite for access to the competitive market is that customers are aware of the development of competition and are informed about it. Whilst MORI's survey of electricity customers indicates that the general level of awareness is high, it also shows (Table 2.13) that it is the customers in social classes D and E, with low income, and/or using prepayment meters, who are the least aware and informed about competition.

Lower levels of awareness and understanding were evident amongst comparable groups of customers when competition was first introduced into the gas market. However, the latest research¹³ in August 1998 reported that recognition of competition in these groups was then only marginally lower than average. This may suggest that awareness takes longer to build in these groups than in other customer groups.

¹³ Gas Competition Review, MORI, November 1998, p14

Table 2.13 - Awareness of / Informed About Electricity Competition

| % | Not aware | Not very well/at all informed | Understand broadly how new electricity market works |
|--|-----------|-------------------------------|---|
| All | 11 | 46 | 47 |
| Social Class | | | |
| AB | 9 | 45 | 54 |
| C1 | 4 | 44 | 51 |
| C2 | 8 | 43 | 46 |
| DE | 16 | 50 | 41 |
| E | 21 | 54 | 38 |
| Low income | 28 | 57 | 30 |
| One parent families | 18 | 54 | 35 |
| Payment of Bill | | | |
| Direct Debit/Standing Order | 6 | 32 | 63 |
| PPM customers | 14 | 54 | 39 |
| Working Status of Head of Household | | | |
| Working | 8 | 46 | 51 |
| Not working | 12 | 46 | 43 |
| Financial Status | | | |
| Has Bank/building society account | 8 | 43 | 50 |
| Neither | 20 | 61 | 30 |

Source: 'Electricity Competition Review', Research Study Conducted for OFFER by MORI (forthcoming publication)

2.5.2 Awareness of Price Differentials

The MORI research for OFFER suggests that similar customer groups have found it more difficult than the average to compare the different prices suppliers are offering (in particular, those without a bank/building society account, low income groups, those in social class E, single parent families, and prepayment customers).

The same survey shows (Table 2.14) that, whilst 37 per cent of customers using prepayment meters knew that they were not the cheapest method of payment, many prepayment meter customers thought that they were paying for their electricity by the cheapest method, as did 20 per cent of customers paying by quarterly cash/cheque and 27 per cent making more frequent payments. In contrast, 58 per cent of direct debit customers correctly identified that they were paying by the cheapest method. The most recent MORI research on gas found that while 75 per cent of direct debit customers knew they were paying by the cheapest method, only 34 per cent of prepayment meter customers knew they were paying more.

Table 2.14 - Awareness of Price Differential by Payment Method

Q Is this the cheapest method of payment offered by your supplier?

| 1. Electricity % | Method of Payment | | |
|---------------------|--------------------------|----------------------------------|------------------------------|
| | Direct Debit/SO (432) | Quarterly cash / cheque (320) | Prepayment meter (295) |
| Yes | 58 | 20 | 26 |
| No | 2 | 35 | 37 |
| Don't know | 40 | 45 | 37 |

| 2. Gas % | Method of Payment | | | | |
|-------------|---------------------------|----------------------------|------------------------------|------------------------------|----------------------|
| | Direct Debit/SO (1081) | Quarterly cash (394) | Quarterly cheque (423) | Prepayment meter (176) | Budget plan (339) |
| Yes | 75 | 27 | 21 | 30 | 48 |
| No | 2 | 23 | 35 | 34 | 14 |
| Don't know | 22 | 50 | 44 | 36 | 38 |

Sources: 'Electricity Competition Review', Research Study Conducted for OFFER by MORI (forthcoming publication)

'Gas Competition Review', MORI, November 1998

Clearly, there are issues concerning the availability of information about payment methods. Indeed, the MORI research points to the need for more information on payment methods by those in certain groups. For example, those most likely to want information on payment methods are customers who have difficulty paying their bills (60 per cent), single parents (38 per cent) and prepayment meter customers (31 per cent).

2.6 *Interim Conclusions*

The information presented in this chapter has shown some of the complexity of the position of disadvantaged customers. The scale of the problem is significant. Whilst several groups contain a disproportionate number of those who are experiencing problems in accessing their fuel suppliers, no single measure of disadvantage emerges. In particular, prepayment meter customers represent a very imperfect proxy for disadvantage: whilst many disadvantaged customers use such meters, there are also many who use other payment methods.

It is also clear that the problem is multi-faceted. Difficulties with fuel usage may go hand in hand with issues concerning housing, employment and benefits as well as issues more directly associated with gas and electricity supply.

The impact of competition in the industries on these problems is difficult to assess at this stage. Competition is a relatively new phenomenon, particularly in electricity. The pressure competition is placing on prices is benefiting all customers in general. However, the differential in charges between payment methods has widened somewhat and prepayment meter customers have more limited opportunities to find savings from new entrants. Similarly, gas customers who wish to pay by regular cash instalments have only a relatively small number of competitors to choose from. Set against this, there is some evidence that competition is encouraging new ways of looking at tariff structures and the problems of the disadvantaged.

3. Statutory and Licensing Background

The scope for the regulator to take action to address problems faced by disadvantaged customers is subject to the statutes under which he has to operate. This chapter:

- reviews the relevant duties and functions specified in the Gas and Electricity Acts;
- describes the protection afforded customers under licence obligations and through price controls;
- describes the standards of performance; and
- summarises recent Government proposals for changes in the regulatory regime.

3.1 *Duties of the Director General of Electricity Supply and of Gas Supply*

The Director has to operate in accordance with duties prescribed in the Gas and Electricity Acts. These duties are not ends in themselves, but govern the way the Director exercises his gas and electricity functions. The primary duties placed on him by each Act are to ensure that reasonable demands for electricity and gas are met, that companies can finance their licensed activities, and to promote or secure competition in their licensed activities. Secondary duties imposed by the Acts include duties to exercise his functions in a manner he considers best calculated to protect the interests of consumers in respect of prices charged and other terms of supply, and so as to promote efficiency and economy on the part of licence holders, and the efficient use of gas and electricity. Other duties relate to environmental protection (as concerns the conveyance of gas, and generation, transmission or supply of electricity) and safety.

In exercising his gas and electricity functions, the Director also has duties in respect of some, but not all, disadvantaged customers. With regard to the quality of supply services provided, he has duties to take into account the interests of customers who are disabled or of pensionable age, and in the case of gas, chronically sick. (In the case of electricity, the Director also has a duty, with regard to prices and other terms of supply, to take into account consumers in rural areas). Although none of the Director's other duties under either Act are written specifically in terms of the disadvantaged, the duties to protect customers with respect to prices and other terms of supply inevitably concern areas of particular importance to low income customers (for example, those with payment difficulties).

3.2 Functions of the Director

The Director's main functions to which the duties are relevant relate to the licensing of gas and electricity companies, and the enforcement of certain relevant requirements of the Gas and Electricity Acts and of conditions of the licences. The Director also has certain discretionary powers, for example to set standards of performance. The weight which the Director gives to his various duties in exercising his functions is a matter for his judgment. He cannot have regard to one duty in isolation, so consequently decisions require a balancing of the duties in order to resolve what may be potentially conflicting regulatory objectives. For example, in considering the benefits of introducing additional performance standards which impose extra costs, the Director would need to weigh the potential disbenefits in terms of increased prices to customers and/or costs to shareholders.

3.3 Supplier Obligations

Under the terms of the Acts and of their operating licences, gas and electricity suppliers have a wide range of obligations which they have to meet¹⁴. A number of these are specifically designed to protect the interests of disadvantaged and disabled customers. Although there are some differences between the gas and electricity regimes (for example, all gas consumers are on contracts, whereas electricity consumers may be on a statutory tariff or a contract) the provisions for consumer protection are broadly comparable.

3.3.1 Customer Safeguards

The most important safeguards which gas and electricity domestic consumers have are as follows:

- a) **Duty to supply:** Suppliers have a duty to supply on request. In gas they cannot reasonably refuse to supply a customer who requests a supply from them, although they are entitled to seek a "reasonable" deposit from a new customer unless the customer is using a prepayment meter or is willing to accept one; in electricity, they can only seek a deposit on payment through a prepayment meter if the customer is uncreditworthy. There is also a requirement on suppliers to publish their charges.

¹⁴ The obligations described in this document apply to gas suppliers licensed to supply domestic premises at a rate not expected to exceed 73,000 kWhs a year; and to Public Electricity Suppliers and second tier suppliers choosing to supply domestic customers and customers whose annual consumption of electricity is under 12,000 kWh.

- b) Range of payment options: All electricity and gas suppliers are required to have available a range of payment methods which customers may use. These include payment by cash at reasonable locations, cheque, an agreed monthly amount or quarterly in arrears, and in electricity by prepayment meter (see section 2.3.1).
- c) Elderly, disabled and chronically sick customers: Electricity and gas suppliers are required by licence to provide special services to domestic customers who are of pensionable age, disabled or chronically sick. Suppliers have to keep a register of customers who qualify. The special services include: bill re-direction; communications appropriate to blind or partially sighted customers and deaf or hearing impaired customers; advance notice of interruptions to electricity supply; special means of identifying company officials; repositioning meters (this service has to be free for disabled customers); advice on fuel use; and the provision (where practicable) of special controls and adapters for appliances and meters. The requirements for gas also include a free safety check.
- d) Treatment of customers in debt: All suppliers have to treat customers in payment difficulties sympathetically. They must:
- ◆ identify customers in difficulty;
 - ◆ provide information on how customers might reduce future bills by more efficient use of energy;
 - ◆ where appropriate, accept payment through direct deductions from social security benefits;
 - ◆ accept payment by instalments - taking into account the customer's ability to pay;
 - ◆ offer a prepayment meter where safe and practicable, calibrated to recover the debt at a level which the customer is able to afford; and
 - ◆ follow the agreed procedures before they are able to disconnect for non-payment. Elderly (and, in the case of electricity, disabled) customers have special protection against disconnection during winter months.

- e) Complaint handling: All electricity and gas suppliers have to establish and publish details of their procedures for dealing with complaints from customers. Ofgas is currently carrying out a review of all domestic gas suppliers' procedures, and will consider using powers under the Gas Act if necessary to require revisions to suppliers' present arrangements.
- f) Site access: Electricity companies must provide customers with details of how they will provide information about visits, including identification of company staff, and the special services they have available for certain customers who may be disabled. Gas companies have to satisfy Ofgas that they can competently carry out arrangements for visits to customers' premises.

All suppliers are required to have arrangements in place to meet these requirements. In the case of electricity, suppliers have to set these out formally in Codes of Practice which are approved by the Director. In gas, all suppliers are also under an obligation to have their arrangements approved and to publish them. All suppliers are required to report to the Director on their performance in meeting their social obligations. Relevant licence conditions are at Appendix C.

3.3.2 Price Controls

Customers are protected by price controls set by the regulator. The controls are included in licence conditions and place limits on the amount by which prices can increase. The controls apply to BGT and to Public Electricity Suppliers on their activities in areas where they are considered to be dominant suppliers. The price controls have been developed to take account of the changing characteristics of the two markets.

The controls in gas protect customers by capping each of BGT's tariffs: direct pay; option pay; and standard credit / prepayment. BGT is required to continue to offer these regulated tariffs to all its customers for the duration of the price control (i.e. from 1 April 1997 to 31 March 2000). The "tariff cap" form of price control was put in place to ensure all BGT's customers are protected from unduly high prices in the new competitive environment. If Ofgas had maintained the previous form of price control based on average or total revenue, BGT could

have compensated for price cuts to one class of customer by increasing prices to other classes of customer.

Effective control of Transco's prices for transportation and storage of gas is also important for all gas consumers. Following a reference to the MMC in 1996, Ofgas was able to insist on an initial cut in Transco's charges of 21 per cent, and a further reduction in subsequent years to 2002 by RPI-2 per cent. These reductions in transportation costs lead to BGT reducing its prices.

In electricity, the distribution price controls set by OFFER place a cap on the average maximum revenue that companies can earn. They limit average revenue to increase by no more than the rate of inflation as measured by the Retail Price Index less a specified level of X. The present distribution price control came into force from April 1995. In the first year, it resulted in reductions on average of 12 per cent in the companies' distribution charges to all customers, 10 per cent in the second year, and further reductions in the remaining year of the control until 2000.

The supply price control in operation until 1998 regulated charges to final users of electricity. In considering what controls should apply from the opening of the market in 1998, OFFER concluded that larger customers below 100kW would be adequately protected by competition. However, as a safeguard for smaller customers, for whom competition might take time to become fully effective, maximum price limits have been set for tariffs for domestic and small business customers ("designated customers") for the two years 1998/99 and 1999/2000. Taking all these together, the price restraints required an average reduction in tariffs to these customers over the two years of about 9 per cent in real terms.

The regulator also sets price controls (Transmission Price Controls) on the National Grid Company's monopoly transmission business and transmission business of the two Scottish companies. The controls set for 1997 until 2001 reduce transmission prices to suppliers which ultimately benefits customers.

Within the price controls, OFFER and Ofgas have taken steps to ensure that disadvantaged customers are protected. During 1998, Ofgas reviewed BGT's regulated tariffs against revised costs to determine whether the tariff caps should be rebalanced to prevent undue discrimination. The review resulted in a reduction in BGT's prepayment tariff (by 7 per cent for

an average customer) to bring it into line with BGT's standard credit tariff. In electricity, for the years 1998/99 and 1999/2000, OFFER extended protection to prepayment meter customers by relating prepayment meter tariffs to the nearest equivalent domestic tariff.

The existing supply price controls in gas and electricity are due to expire on 31 March 2000. During 1999, OFFER and Ofgas will consider whether these restraints should continue for a further period, and if so in what form and for how long. In coming to this decision, it will be necessary to take account of the experience of different groups of customers in the competitive market. It will be important to look in particular at how disadvantaged customers are able to participate in the market, both to ensure they are able to benefit from the new competitive environments and to protect them in terms of price if necessary.

3.3.3 Standards of Performance

The Director has discretion under the Gas and Electricity Acts to set standards of performance for the provision of supply services and for the promotion of energy efficiency. There are two types of standards for supply services: Guaranteed Standards which set service levels that must be met in each individual case, and, under which, if the company fails to provide the level of service required it must make a payment to the customer affected; Overall Standards, which, whilst not giving individual guarantees, require companies to provide predetermined minimum levels of service.

The standards set by the Director in electricity with respect to the quality of service customers receive from PESs are intended to protect all classes of customer, but some have been designed to meet the needs of particular groups. Where electricity customers are disconnected for non-payment, reconnection following agreed arrangements to pay has to be made within a specified period of time; and failures to prepayment meters have to be repaired within a given number of hours.

In gas, no standards have been set under the Gas Act. There are, however, provisions in the licences for standards of performance for British Gas Trading (as the dominant supplier) and public gas transporters and for the payment of compensation. In the case of British Gas Trading, the company has agreed to meet a standard of service to visit within four hours customers who report difficulties with their gas card for a Quantum meter. This is not a requirement for other suppliers.

3.3.4 Energy Efficiency

All gas and electricity companies are required to offer energy efficiency advice on request, and to customers in debt. (The relevant licence conditions are attached at Appendix C). In addition, in accordance with Section 41 of the Electricity Act, standards of performance have been set for Public Electricity Suppliers for the period 1994-98 and 1998-2000. These have resulted in funds being raised from PES customers for a range of energy efficiency projects. Around 60 per cent of these funds are used to support projects which benefit low income customers. No similar standards have been set in gas although a similar power exists in the Gas Act to do so.

The Director General will be considering during the coming year, as part of his review of future price controls, whether or not electricity – and for the first time gas – standards of performance should be set. As well as changes in the gas and electricity markets resulting from increased competition, the Director General will need to take into account the extent of his existing statutory powers. Under the Electricity Act, the Director can set standards of performance for PESs but not for second tier suppliers. The powers in the Gas Act relate to all gas suppliers, but expire on 1 March 2000. These can be extended by secondary legislation to 1 March 2002.

3.4 The Government's Proposals for Change

In March 1998, the Government published a Green Paper, 'A Fair Deal for Consumers: Modernising the Framework for Utility Regulation'¹⁵. This set out its strategic proposals for ensuring fairness and efficiency and securing a long term, stable and effective regulatory framework. Following consultation, the Government issued its response in July 1998¹⁶ confirming its proposals for action, subject to new legislation. A number of the Government's proposals concern the position of disadvantaged customers.

The Government proposes to amend the Director's statutory duties to include a new single primary duty. This will require the Director to exercise his functions in a manner best calculated to protect and promote the interests of consumers, wherever possible and appropriate through promoting effective competition. The Government says the interests of consumers should be interpreted to include prices and other terms of supply, continuity and availability of supply, and quality of supply. It is intended to retain the existing secondary duty in respect of energy efficiency, and the elderly and disabled, but to extend the latter duty to

¹⁵ CM3898

cover low income customers, and the chronically sick in the case of electricity. In fulfilling the new primary duty, Government proposes that the Director should take into account in particular the interests of the disabled, consumers of pensionable age, low income consumers and the chronically sick.

The Government also intends to issue statutory guidance on the social and environmental objectives, including energy efficiency objectives, relevant to regulation. This statutory guidance will be subject to full consultation, including consideration by Parliament, and is intended to last for a set duration. The Director will be placed under a general duty to have regard to guidance in the exercise of his statutory functions. The Government has said that where it wishes to implement social or environmental measures which would have significant financial implications for consumers or for regulated companies, these would be backed by a new, specific legal provision. In the case of new energy efficiency standards of performance to meet further energy and carbon savings, the Government has made clear in its consultation paper on a UK Climate Change Programme that this “would fall into the category of measures which should be implemented through new specific legal provision rather than relying on guidance to the regulator”¹⁷. The Government expects that future standards will be set by Government not the regulator.

The actions suggested in this paper are framed within the Director’s existing duties and powers. They do not anticipate the revisions the Government has proposed, which are subject to new legislation. However, given the Government’s intention to legislate in this area, the Plan may need to be adjusted to reflect any relevant changes once new legislation is introduced.

¹⁶ Response to Consultation - July 1998

¹⁷ UK Climate Change Programme, Consultation Paper, DETR, October 1998, para 66.

4. Principles Underpinning the Revised Plan

4.1 Background

Chapter 2 reviewed the information available on the sources of problems for disadvantaged customers and on which customers are particularly vulnerable. Chapter 3 set out the legislative framework within which the Social Action Plan will need to operate.

It is clear that the problems faced by electricity and gas customers, whilst not identical, have very many common themes. In addition, the role and powers of the regulator in both industries are similar. The development of 'dual fuel' products in the competitive market and, more generally, the increasing convergence of the gas and electricity markets, all suggest that a fully co-ordinated approach across the gas and electricity industries is appropriate.

4.2 Requirement to Revise the Existing Action Plans

Against this background and in the light of the general response to the initial Social Action Plans published by OFFER and Ofgas in 1998, it is appropriate to review and revise the present plans. The objective is to produce a new joint electricity and gas plan which:

- ◆ sets out a co-ordinated plan for action in both the gas and electricity industries;
- ◆ ensures that the social dimension is considered in all elements of gas and electricity regulation;
- ◆ sets out the contribution expected from the industry and others; and
- ◆ highlights areas for priority action by the regulator.

4.3 Focus of the Revised Plan

The measures in the Plan need to be focused on areas where assistance is most needed and where action taken by the regulator and the industry can have best effect. Chapter 2 demonstrated the scale and complexity of the problems faced by disadvantaged customers. No single measure is capable of addressing the range of problems experienced by disadvantaged customers. Similarly, action by the regulator and the industry can only represent one part of a wider programme involving Government, local authorities, voluntary agencies, customer

groups and others. The Plan needs to take full account of the actions expected by others and set out clearly the contribution of the industry and of regulation.

4.4 *The Plan in the Context of Regulation and Competition*

The revised Action Plan cannot stand in isolation from other initiatives by the regulator and other developments in the industry. Indeed, to be effective the Plan will need to be fully integrated with all of the regulator's work and developments in the industry. In particular, the Plan will need to work effectively against the background of increasingly competitive markets in supply and in metering and the effective regulation of the natural monopoly elements of transportation and distribution.

The development of effective competition is a general priority for the regulator. As the Government noted in its Green Paper, "Competition creates a spur for companies to innovate, improve efficiency and drive down prices. This is good for consumers and the competitiveness of UK industry. The Government is therefore committed to driving competition where this is possible"¹⁸.

Liberalisation of the gas and electricity markets and regulation have resulted in benefits in terms of lower average bills for all categories of customer. Ensuring more effective competition in supply and in the wholesale markets will provide further significant benefits for all customers. For example, the Government has estimated that more effective competition in generation should result in a reduction in wholesale electricity prices in the medium term of at least 10% in real terms¹⁹. Ensuring that price reductions are achieved through reformed trading arrangements, and by securing greater competition between generators, is therefore a priority for the regulator. A 10 per cent saving in generation prices would equate to about a 5 per cent saving on final prices for all customers, including the disadvantaged. Similarly, the effective regulation of electricity distribution and gas transportation can significantly reduce the costs of suppliers, enabling them to pass worthwhile savings on to customers. This has been important in the past and will continue to be important.

Competition in supply is an essential component of the liberalisation process. Competition in electricity and in particular gas supply is developing rapidly. However, the markets are still at

¹⁸ CM3898, para 4.1

¹⁹ Conclusions of the review of energy sources for power generation and Government response to the fourth and fifth Reports of the Trade and Industry Committee, Department of Trade and Industry, October 1998, CM4071.

an early stage of development. Any reduction in competitive pressure on incumbents is likely to stultify innovation and reduce the pressure to reduce charges, to the marked disbenefit of all customers including the disadvantaged.

Accordingly, it will be important to ensure that measures taken as part of the Social Action Plan agenda do not distort competition nor deter entrants from entering the market and challenging suppliers with dominant positions. Actions designed to protect disadvantaged customers in the short term which unduly distort or deter competition are unlikely to produce benefits for disadvantaged customers over time and may actually further harm them. In considering possible areas for action therefore it will be important to assess not only the likely immediate impact on disadvantaged customers, but also the probable impacts on competition. To be effective, the Action Plan should focus on areas where specific measures designed to protect customers and the development of competition can work together to bring benefits to the disadvantaged.

4.5 Summary

The present Action Plans produced by OFFER and Ofgas should be revised. Given the objectives set out in 4.2, the revised Plan needs to be focused on areas where assistance is most needed and where action taken by the regulator and the industry can have best effect. The Plan needs to take full account of the actions expected by others, including Government, and set out clearly the contribution of the industry and of regulation. The revised Plan will need to be fully integrated with all of the regulator's work and developments in the industry. In particular, it will need to work effectively against the background of increasingly effective competitive markets. Measures taken as part of the Action Plan should not deter or distort competition. Rather the Plan needs to focus on areas where specific measure to protect customers and the development of competition can work together to bring benefits to the disadvantaged.

Views are invited on these conclusions.

5. Consideration of Possible Measures

5.1 Identifying Areas for Action

Chapter 4 set out the objectives for the revised Plan and the main principles which should underpin the measures proposed for it. This chapter reviews possible areas for action. In many of these areas, steps have already been, or are being taken, by the regulator and by companies to provide particular services for disadvantaged customers. Many of the actions are required by licence conditions and are set out in companies' Codes of Practice or equivalent. In some cases, however, there is a need to strengthen existing measures and to consider whether additional monitoring is required. In other cases, new areas for possible action are identified.

Possible measures to assist disadvantaged customers are discussed below under six broad headings. These measures are designed to address disadvantage arising from:

- a) payment difficulties;
- b) hard to heat homes;
- c) special needs because of disability, chronic sickness, age or language barriers;
- d) reliance on prepayment meters;
- e) access to competition; and
- f) lack of information.

Many of the measures discussed have implications for a number of customer groups and many could help address more than one source of disadvantage. Where this is particularly important to the consideration of a measure, these broader implications have been highlighted. The issues discussed do not cover all forms of disadvantage or all the possible means by which disadvantages might be addressed. However, against the background set out in previous chapters, it seems likely that the main areas for priority action will be identified from the issues considered in this chapter.

5.2 Payment Difficulties

Payment difficulties may arise for a wide range of reasons. Some of these reasons, such as hard to heat homes, are considered in other sections. In this section, we consider circumstances where customers have insufficient income to meet their gas, electricity and other essential needs; where tariff structures may give rise to particular difficulties for customers; where

customers may not be paying for fuel in a way which meets their needs; and where debt has built up.

5.2.1 Insufficient Income

Low income is a major cause of problems for many electricity and gas customers. Questions about income levels, including the level and form of benefits, are of course matters for Government, not the regulator or the industries. There are however areas where the regulator and the industries do have a role to play.

5.2.1. (a) Action on Prices and Competition

In particular, price reductions can be regarded as equivalent to increases in income for customers, in particular disadvantaged customers. Price cuts allow customers either to purchase more gas and/or electricity where they need to do so, or to enable them to purchase other essential goods and services with the money they have saved. This is important because, as one customer put it, "...if you can make a saving it's more clothes on your back, food for your kids; it makes life easier to live with"²⁰. Accordingly, effective action by the regulator to keep prices low has direct and significant benefits for disadvantaged customers. The revised Plan needs to recognise the significance of this to customers.

Action here will include work on the supply price controls in both gas and electricity, together with the work on distribution, transportation and transmission controls. Consultation documents on these reviews will, where appropriate and relevant to the review, draw attention to issues affecting the disadvantaged. Some concerns have been expressed in the past that the reductions required by price controls may not have been passed on to all customer groups. **It is for consideration whether further steps should be taken to ensure that the benefits of these controls are shared appropriately between all customer categories, including the disadvantaged.**

In addition to work on price controls, action to reduce prices to customers needs to focus on areas where competition is developing but is not yet fully effective. Reform of the generation market is overdue. Plant disposals by the major generators, together with the introduction of plant presently under construction, should help enhance competitiveness and increase the pressure on generation prices. More work is however required to reform trading arrangements and overcome barriers to entry to the market. Competition will not be fully effective whilst the

present policy by the Government on consents restricts the opportunities to enter the market. Ensuring that competition develops further in electricity generation has the potential significantly to reduce prices.

Similar considerations apply to OFFER's and Ofgas' other work on securing effective competition - in the gas wholesale market, in gas and electricity metering and meter reading and in the supply market. Enhancing competitive pressures throughout the gas and electricity market can be expected to reduce prices to the benefit of disadvantaged customers.

It has to be recognised that some steps to enhance competition can have adverse consequences for disadvantaged customers, at least in the short term. These may arise, for example, because prices have been bundled together in a way which hides the higher costs associated with supplying a particular service. As competitive pressures develop, existing suppliers may seek to unbundle charges to reflect their costs more accurately. Companies say, for example, that this may occur in the case of metering where, they argue, certain costs associated with prepayment metering are not presently fully reflected in charges to suppliers.

Considerable caution needs to be exercised in assessing such claims by companies. Where in fact costs lie is generally not well understood by suppliers prior to the introduction of competition. In some cases, changes in charges may accurately reflect costs and be a justifiable response to competition. In other cases, proposed changes in pricing may not be justified. Changes in charging structures may be intended to deter competitors or increase pressure on the regulator to slow the pace of beneficial reform. Given a lower rate of switching amongst disadvantaged customers, increases in charges relevant to these customers may also help maintain the profit levels of incumbents. Each case needs therefore to be reviewed on its merits. However, **especially in the early stages of market development, it would seem appropriate to review with particular care charging structure proposals by dominant suppliers which may have a detrimental impact on disadvantaged customers.**

5.2.1.(b) Other Action on Income

Many of the actions for consideration in this paper have an impact equivalent to an increase in income for customers. The next sections consider tariff structures and payment methods where ensuring that the customer is paying by the lowest cost tariff can bring immediate assistance.

²⁰ From MORI's Qualitative Research, quoted in 'Electricity Competition Review': Research Study Conducted for OFFER (forthcoming publication).

Similarly, action to improve information on benefits and access to the competitive market can bring direct financial benefits to customers in hardship.

Improving the efficiency of homes which are particularly hard to heat enables customers to get more for the electricity and gas they buy. It is an important area for action and is considered in more detail in section 5.3.

5.2.2 Tariff Structures

Two main issues on tariff structures are considered to be of particular significance to disadvantaged customers. These are:

- ◆ standing charges/low user tariffs; and

- ◆ the prepayment meter surcharge.

They are considered in turn below.

5.2.2 (a) Standing Charges/Low User Tariffs

Standing charges are intended to reflect the fact that every customer incurs some costs (supply of meter and wires/pipes, billing, customer services etc) however little electricity or gas they use. The level of standing charges varies widely. A few suppliers make no such charge, but for most customers they are between £35 - £50 per year and represent around 10-20 per cent of the typical bill. However, for the 5 per cent of customers who are very low users they can represent around 40 per cent of the bill.

Standing charges for gas and electricity have been a source of concern for many organisations representing disadvantaged customers. A particular concern has been the impact of standing charges on the elderly, and it has been suggested that standing charges should be significantly reduced or even abolished for them. The Secretary of State for Trade and Industry has asked the regulator to look at electricity standing charges to ensure that pensioners and the poor, in particular, are not disadvantaged.

There is evidence²¹ that some low income customers, in particular lone pensioners, tend to use below average amounts of electricity. However, while energy consumption is generally higher

²¹ English House Conditions Survey, 1991: Energy Report

among better off households than those on low incomes, not all low income customers are low users and not all low users are on low incomes. Some of the fuel poor are, of necessity, high users. Currently, three Public Electricity Suppliers have special tariffs for customers who consume low amounts of electricity in which either the standing charge has been removed and initial units consumed are weighted in price, or all units are charged at a higher price. The break-even points (that is, the levels of consumption above which the standard tariff would be cheaper) are around 1,000 units a year. These companies have told OFFER that about 5 per cent of their customers may benefit from these tariffs. Nationally, this would amount to around one million customers. But consumption at this level can be indicative of property that is not in full time occupation: for example, a second or holiday home. There may be merit in examining the scope for developing these tariffs at a more inclusive level (for example, the approximately 11 per cent of customers who use 1500 units or less a year). However, this type of tariff generally leads to a fairly modest saving overall, and may not be beneficial for all low income customers.

The development of competition opens up new opportunities for tariffs without standing charges or for tariffs which are “tilted” so that the unit price is lower at low consumption levels. Such tariffs might also offer benefits in terms of encouraging more efficient use of electricity and gas. To date, only one second tier electricity supplier has offered a tariff aimed at those with low consumption. Three gas suppliers offer credit tariffs with no standing charge and three offer credit tariffs with annual standing charges of under £30.

The wider provision of low user tariffs as an option for customers should be encouraged and suppliers urged to develop and promote such tariffs. One possible action would be to encourage suppliers to promote more actively the existence of low user tariffs to relevant customers. Suggestions on how such promotion could be done most effectively are welcomed. For example, it might be useful to work with other agencies (such as Age Concern) to promote such tariffs to customers who might benefit. OFFER/Ofgas will monitor the take-up of such tariffs.

Is there anything more which the companies and/or the regulator should be doing to encourage the development of tariffs without standing charges or tariffs which are “tilted” to favour low consumption?

In addition, it is evident that the basis for making standard charges is not clearly understood. It would add to public confidence if this basis were fully set out and the differences explained. **It**

is for consideration what further information the companies should provide on the make-up of their standing charges and what further work OFFER/Ofgas should undertake in this area.

5.2.2 (b) *Prepayment Meter Surcharge*

This section deals specifically with charges for prepayment meters. The problems which customers may encounter using prepayment meters are dealt with in section 5.5. Section 5.6 considers how prepayment meters and services might develop under competition, including technical developments which could lead to cheaper means of payment.

The difference in charges paid by customers using monthly direct debit and those using prepayment is typically around £25 for electricity franchise customers (although this varies between PESs), and about £40 for British Gas. Thus a customer with two prepayment meters could pay some £65 a year more than a customer who buys both fuels using direct debit; and somewhat more in the case of charges of some competing suppliers.

In view of concerns about the level of charges to prepayment customers, the Government in its Green Paper²² outlined an approach which would reduce them through subsidy by a levy on transportation charges. Suppliers would be required to set charges for prepayment meter customers which did not exceed a specified “standard” tariff they offered credit customers. Such an approach would, however, raise a number of significant practical issues. A levy would need to raise a substantial amount of money: on the basis of present charges and numbers of prepayment meter customers, this might amount to in excess of £150 million a year. It would require detailed regulatory scrutiny of each supplier’s costs and prices, representing a significant increase in regulation in the market. Implementing such a scheme might require legislative support.

More significantly from the perspective of disadvantaged customers, it is questionable whether a general levy of this form would bring sustainable benefits to prepayment meter customers. Suppliers would have reduced incentives to seek out more efficient means of serving prepayment meter customers and/or to devise newer and cheaper payment methods. A levy or cross subsidy would result in other customers (whose incomes may be as low as, or lower than, prepayment meter customers) being required to subsidise the prepayment method.

²² CM3898

OFFER/Ofgas is not attracted to this approach. It would tend to distort the development of competition and reduce incentives on suppliers and customers to find more cost-effective means of paying for electricity and gas. It would take time to implement and would result in other customers, including many disadvantaged customers, facing higher charges.

Companies state that there are two main components of the additional costs of prepayment meters: the higher cost of the meter compared to credit meters; and the additional costs of meter charging and cash handling facilities. Both OFFER and Ofgas have been concerned to identify whether the difference in prices charged by the dominant suppliers is justified by differences in costs.

Ofgas has taken a number of steps to review the prices paid by prepayment meter customers. It has examined the costs of the Central Quantum Office, the provider of support services for quantum meters for all suppliers, and concluded that the monthly charge should be reduced (from £2.15 to £1.88). It has also reviewed a request by Transco to introduce a new charge to shippers/suppliers to reflect the additional cost of providing a prepayment meter over and above those of credit meters. This was originally estimated by Transco at £46 per meter per annum, but was subsequently substituted with a £10 charge (effective from 1 April 1999).

In early 1998, Ofgas undertook a detailed examination of the way in which costs involved in supplying customers varied according to payment method. This followed proposals from British Gas Trading (BGT) to lower some price-controlled tariffs but not its prepayment meter one. Ofgas were concerned that BGT should manage debt efficiently and that there should be no artificial incentive for the company to make customers in debt use a prepayment meter because the tariff was higher than other payment methods. Its study showed that there were offsetting cost reductions when customers paid by prepayment meter. In particular, savings arose because such customers had to pay in advance of consumption. It concluded that the cost of serving standard credit customers was about the same as that of providing payment facilities for prepayment customers. As a result, prices for prepayment meter customers were brought into line with those for standard credit customers. The reductions were equivalent to a decrease in the annual bill of a prepayment customer of £16.

OFFER is conducting a comparable review of costs for electricity and will be looking at a number of issues including the extent to which suppliers take into account the benefits of prepayment meters (such as the avoidance of bad debt and working capital saved) when setting charges. At present, PES distribution businesses (with one exception) charge suppliers between

£13 and £31 a year more for prepayment meters than credit meters. In addition, PES supply businesses levy a charge of between £2.50 and £7.50 a year for providing prepayment meter infrastructure services (broadly equivalent to the service provided by the Quantum office in gas). PESs have argued that the latter charge does not fully reflect the costs they incur from third party service providers, including the Post Office, for the provision of the service.

OFFER will be publishing the results of its study in the summer. The findings will feed in to the revised Plan and to the price reviews.

The final price paid by prepayment meter customers will also need to be considered further in the context of the revision of the present supply price controls. In bringing forward proposals for the new price controls, it will be important to consider the impact on disadvantaged customers.

5.2.3 *Paying For Electricity and Gas*

This section considers the issues associated with the availability of appropriate methods of paying for electricity and gas and considers whether mechanisms can be found to give disadvantaged customers easier access to low cost payment methods.

5.2.3. (a) *Availability of Payment Methods*

The range of payment methods used by low income households was described in section 2.3.1. For customers facing difficulties in paying, with low incomes, or in other disadvantaged groups, prepayment meters and regular cash or budget plans are particularly important. The evidence suggested that most companies have available at least one 'free' method of cash payment in addition to prepayment meters, but that the picture varied. Most payment options were available from a number of suppliers in both electricity and gas, but frequent payment methods were much less widespread amongst BGT's competitors in the gas market.

Given that frequent payment methods are used most often by the disadvantaged, some customer groups say that a form of frequent (weekly) cash payment scheme needs to be provided by all suppliers. They want this added to the standard licence conditions. It can be argued, however, that the imposition of further requirements on the type of payment methods suppliers must make available would increase costs and might deter competitors from entering the market. Suppliers might reflect those increased costs in charges either to customers who use the cash payment services or to all customers. Concerns have also been expressed about the availability of cost-effective national facilities for cash collection on a large scale. Conversely,

customer groups have argued the costs of providing a regular cash option would be largely offset by a reduction in the costs to suppliers of dealing with customers in debt.

OFFER/Ofgas is not convinced that conditions should be imposed on suppliers. Setting additional requirements on suppliers could increase their costs and prevent some suppliers from opting to offer such services so as to differentiate themselves from their competitors. Setting up nationwide facilities for handling cash payments could also become a barrier to new suppliers entering the market.

Views are invited on whether in present circumstances all suppliers should be required to offer a frequent cash payment method; or whether better information on which suppliers offer frequent cash payment tariffs will be sufficient to maintain and ensure their availability. Is there more which the companies and/or OFFER/Ofgas could do to promote the availability of frequent cash payment methods, particularly in the gas market. Is there a need for further work by OFFER/Ofgas in this area?

An additional approach to help improve payment methods for disadvantaged customers would be to promote alternative payment methods. This is covered in the following section on access to bank accounts.

5.2.3 (b) Access to Low Cost Payment Methods

One of the problems faced by disadvantaged consumers is that, as explained in chapter 2, they may not be able to use lower cost payment methods.

There are several issues which need to be considered. First, whether banks offer suitable accounts for disadvantaged customers. Many banks will be unwilling to offer full current account services, including overdrafts and cheque guarantee cards, to people on very low or fluctuating incomes or to people who have a poor credit record (which could include people who have had fuel debts). However, a number of banks, particularly ex-building societies and new entrants, are starting to offer more restricted forms of current account, which allow direct debits and standing orders and provide a cashcard for pre-set limited cash withdrawals, plus possibly some form of debit card, but do not have cheque books, cheque guarantee cards or overdraft facilities.

Banks are not always accessible to disadvantaged customers who may not travel regularly into town centres. Many bank branches are in town centres only, so accessibility is likely to depend

upon some link with Post Offices which have a much wider branch network. Several banks already use Post Offices to supplement their branch network.

Although many households on benefits have their income paid into bank accounts, many more have payment books or Giros which are cashed at Post Offices. However, widespread switching to bank accounts for benefits payments could endanger the survival of many smaller and rural Post Offices which provide an important service to many communities. The development of the use of bank accounts for benefits payments is thus likely to be dependent upon enabling Post Offices to play a fuller part in the banking system.

The potential for computerisation of Post Offices and the benefits system is another important consideration. Computerisation of benefits payments has only recently been started on a pilot basis. Banks which currently use the Post Office network operate on a paper-based system which would not be suitable for widespread use. Computerisation of both systems is unlikely to be achieved in the immediate future, but early progress would be helpful to enable the development of cheaper payment methods for disadvantaged customers.

Old habits die hard, and it may be difficult to persuade disadvantaged customers to move away from cash-based systems and towards bank accounts. For many households who are used to receiving income (wages or benefits) in cash and paying bills in cash the idea of using a bank account may seem strange. A survey by the OFT²³ found that the main reason given for not using or not having a bank account was "prefer to budget with cash". It may be possible to change this attitude, particularly among younger people, but it is unlikely to change rapidly for large numbers of such households. It also needs to be recognised that for many customers a prepayment meter provides a useful budgeting discipline that no other payment method can provide (as evidenced by the numbers who say they prefer to keep the prepayment meter even when told that other methods are cheaper) and, for these customers, paying through a bank account may never prove attractive.

The greater use of bank accounts could be a way forward for many disadvantaged households, providing them with cheaper ways of paying their fuel bills as well as other benefits, although it is important to recognise that this may take time to achieve. Promoting greater access to bank accounts will need concerted action by a number of players. Fuel suppliers have much to gain from the wider use of direct debit and therefore have a role to play. OFFER/Ofgas have begun

to have some dialogue with the Social Exclusion Unit about the potential for greater use of bank accounts by disadvantaged customers.

What action could suppliers take, in collaboration with banks and others, to promote access to and use of bank accounts by disadvantaged customers?

Credit unions are another possible initiative which could help disadvantaged households gain access to lower cost methods of paying their gas and electricity bills. It might be possible to establish a credit union (e.g. based on a tenants' association) with households being able to make payments into the credit union who would then pay gas and electricity bills by direct debit, thus obtaining the benefits of a low cost payment method. The OFT and Social Exclusion Unit have been looking at the scope for credit unions.

In Speke in Liverpool, the local credit union has developed an initiative with Manweb in which the customer pays the credit union and the credit union then pays Manweb from its account. The credit union is looking into a direct debit arrangement with Manweb.

Credit unions could also be a way of funding energy efficiency measures. However, a key concern is that if all the membership of a credit union is made up of people on low incomes it can be difficult to build up enough funds to operate effectively. Credit unions tend to work best where they have a good social 'mix' with some people paying in larger amounts which can be loaned to other members. OFFER/Ofgas have had discussions with the Social Exclusion Unit about the possible role of credit unions.

Can suppliers further assess the potential for working with credit unions and would this be an area worth exploring?

Would suppliers consider funding the development of a 'credit union model' which could be successfully demonstrated and then, where appropriate, replicated? Funding might, for example, take the form of the secondment of a member of staff able to set up and promote a credit union.

5.2.3 (c) *A Change of Tariff*

²³ Office of Fair Trading. The Consumer Survey. Appendix 4 of Vulnerable Consumers and Financial Services; January 1999 p4.

Electricity Codes of Practice include advice to prepayment meter customers about the circumstances in which they may revert to credit meters, but the onus is generally on the customer to request the change. It is sensible for a change to be made in circumstances where it is unlikely to be necessary to revert to a prepayment meter soon afterwards. Codes include several common conditions, such as: the meter should have been in place for 12 months; the debt must be paid or arrangements made to pay it in some other way; and a payment arrangement or security deposit must be agreed before a change is approved. None of the companies gives an undertaking to contact customers, but several have done so with varying degrees of success. British Gas has also recently undertaken a pilot exercise to encourage prepayment meter customers without debt to switch to the credit tariff.

Doble²⁴ found that 75 per cent of those using prepayment meters had suitable bank or building society accounts. Customers repaying arrears were asked about their intentions when arrears had been repaid. Although 74 per cent said they would still prefer to pay by prepayment meter, 26 per cent said they would change or would think about changing to direct debit. OFFER's recent MORI study²⁵ found that more than 20 per cent of customers would return to a credit meter if this resulted in a reduced price for electricity. There would appear to be scope therefore for greater effort on the part of companies to inform customers.

The recent National Audit Office (NAO) report on the introduction of domestic gas competition recommended that Ofgas should seek to improve customers' knowledge of the impact on their bills of their choice of supplier and of payment method.²⁶

Should companies do more to inform all customers with prepayment meters that they could reduce their bills by switching to direct debit or quarterly bills? Suggestions on how this could most effectively be done would be welcomed. OFFER/Ofgas will ask companies to report on their actions in this area.

Is there a need for companies to do more to inform customers without prepayment meters (for example, those who pay quarterly or more frequently in cash, by cheque or postal order) that they could reduce their bills by switching to direct debit?

²⁴ Doble, M. 'Low Income Customers in the Competitive Gas Market: Why Don't Prepayment Meter Users Switch to Cheaper Payment Methods?' Centre for Management Under Regulation. Research Paper 98/4.

²⁵ 'Electricity Competition Review' Research Study Conducted for OFFER by MORI (forthcoming publication)

5.2.4 Customers in Debt

Inevitably, some disadvantaged customers find themselves in debt. This section considers the role of the suppliers in helping to avoid the build up of debt and in handling customers with debts. The licence position was set out in chapter 3.

5.2.4 (a) Debt Prevention

Debts can build up for a variety of reasons. There is evidence that in some cases poor estimating and/or failure to read meters frequently can lead to the start of debt building up. However, the precise extent of this problem is difficult to measure. Although there are licence requirements in gas and electricity covering meter readings, some customer groups argue that these are insufficient. Increasing the frequency of meter reading will, however, tend to increase costs, although these may in part be offset by lower customer enquiries. Some companies have recently increased the number of meter readings they undertake in an effort to improve service and minimise enquiries and the debt problems that estimates can bring. Alternative approaches would be to ensure that debt recovery arrangements took into account the period since the last firm reading, or to provide easier means for disadvantaged customers to provide 'customer own' readings.

Customers can check whether the estimate shown on their bill is reasonable when compared with the reading on the meter. Where the estimate is significantly different from the reading on the meter the customer is able to ask the supplier to replace the estimated bill with one based on the actual one that they provide. It is unclear whether this option is understood by customers.

Views are invited on whether tighter minimum requirements in this area would benefit disadvantaged customers and suppliers or whether an alternative approach should be adopted. Should suppliers do more to promote the option of sending in replacement meter readings?

Evidence from the gas industry and from customer groups suggests that in many cases of disconnection no contact with the customer has been established; it may be appropriate to look again at the licence requirement. It is important that suppliers follow good practice in this area

²⁶ National Audit Office Report: 'Giving Customers a Choice - the Introduction of Competition in the

to assist in the prevention of debt. OFFER/Ofgas will be monitoring carefully companies' compliance with the existing conditions.

Is there more that suppliers could do at an early stage to prevent the build up of debt?

Does the regulator need to amend suppliers' licences and improve the monitoring of companies' performance?

5.2.4 (b) Debt Management

As described in chapter 3, licence conditions and Codes of Practice require all licensed suppliers to treat sympathetically customers in payment difficulties. In particular, debt recovery rates must take into account the customer's circumstances.

The average debt repayment level for prepayment meter customers has been monitored by OFFER for a number of years. For the quarter ending December 1998, it was on average £3.11 per week nationally across all customers (not just those on benefits), which is just above the level of fuel direct. Practice varies somewhat between suppliers. It is also recognised that the individual supplier averages may hide a wide variation of practice with individual customers. Suppliers were required to report similarly for non-prepayment debtors as from 1 April 1999.

The social obligations monitoring undertaken by OFFER and Ofgas covers some debt management and prevention issues, but with the merger of the two offices there will be a need to bring together action in this area. In the light of the Social Action Plan, it will also be important for OFFER/Ofgas to enhance monitoring and compliance work in this and in other areas covered by companies' licence obligations.

Issues to be considered could include: aligning the systems for electricity and gas; how to identify examples of good practice which could be more widely promoted; whether there are recurring problems which need to be tackled either through better compliance with existing requirements or through new requirements.

Specific issues to consider will include whether there should be a standard maximum amount specified in licence conditions or Codes of Practice for repayment of debt. If so, how much should this be (for example, the fuel direct level) and should it be widely available to

Domestic Gas Market'. May 1999

customers in debt or only to those in certain circumstances (for example, those on income-related benefits)?

Debt is often a result of lack of income, perhaps due to changing circumstances such as divorce, sickness, disability, unemployment etc. Many households with fuel debts may also have other debts. Some households may have difficulty in paying their gas and electricity bills because they are not claiming all the benefits to which they are entitled. There are two areas where companies might be able to assist disadvantaged households.

The first is in the provision of debt counselling and advice on take-up of benefits. Action could be taken either directly by the companies or by referral to specialist welfare rights/debt counselling agencies. All the Codes of Practice for Public Electricity Suppliers and second tier electricity suppliers mention that debt advice is available from independent parties, but there is variation between suppliers in terms of how they inform customers about available debt advice. Written information in this form is not available from gas suppliers.

Most companies feel that debt counselling is best done by independent agencies. Some consumer organisations share this view, as the broad range of matters on which consumers may need advice is best handled by agencies used to dealing with multiple problems. However, a number of consumer organisations have suggested that suppliers should consider contributing to the costs of independent agencies and it may be that some suppliers have already done this.

What role should companies have in debt counselling/ benefits advice? Should they refer customers to specialist agencies rather than try to provide advice themselves?

Could companies assist independent debt counselling agencies by contributing towards their costs? Do any suppliers currently do this?

Second, the Green Paper suggested²⁷ that utility companies should “consider ways in which consumers in greatest need might be helped, including for example by contributing on a voluntary basis to a charitable trust.” Some electricity and gas companies have made contributions to charitable agencies, which in turn provide help to low income households, but none has yet established a charitable trust.

²⁷ CM3898, para 5.36

The picture in water is somewhat different. Ten water companies in England and Wales have established schemes which allow customers to retain supply even when they cannot pay their bills. The schemes comprise a range of independent charitable trusts and internal hardship funds, and costs are met by shareholders rather than by customers. Some aim to provide help over and above the payment of bills, for example to cover other debts and grants for household items, and by making donations to charitable organisations to cover debt advice.

While charitable trusts could provide some help to particular disadvantaged households, it seems unlikely that such trusts could make a major contribution to solving the problem of payment difficulties. There is also the question of whether this is an appropriate means of tackling what may be effectively a problem of low income, which many would argue should be the responsibility of Government. However, the use of charitable trusts to help fund energy efficiency measures or new, efficient appliances, in order to help prevent debt or payment difficulties, might be viewed rather differently. Indeed, it is in this area that a number of gas and electricity companies have already provided charitable funds, through organisations such as National Energy Action (NEA).

In water, the Government itself is taking steps to ensure that large families on low incomes (in receipt of certain benefits), and those with certain medical conditions requiring high water use, whose water supplies are metered, will be protected from the threat of high water bills. Bills for both groups will be based on the average measured charges for water suppliers.

If the Government were to take a similar approach in the case of gas and electricity, help might be provided to low income households who live in properties which are difficult or expensive to heat, or to people who have high needs for heating due to sickness or disability. Such help used to be provided (until April 1988) to claimants of supplementary benefit (the predecessor to income support) in the form of a weekly addition to their benefit.

Could charitable trusts similar to those established by some water companies have a role to play and should energy companies be encouraged to set them up? Should charitable funding be provided by energy companies to help people pay their fuel bills and/or for energy efficiency measures?

Is any further action needed by the companies on the day-to-day management of debt?

5.2.4 (c) *Fuel Direct*

Fuel direct is only available to customers on benefit who are in debt. Its use, however, has declined. In August 1994, there were about 56,000 direct deductions for electricity and 178,000 for gas. By August 1998, the numbers had fallen to some 32,000 and 79,000 respectively. Fuel direct has tended not to be very popular with energy suppliers because it can take some time to get payments from the Benefits Agency, although this has been improving. The Benefits Agency has concerns about fuel direct due to the costs of administration and worries about taking responsibility away from claimants and/or taking up too much of their income. A number of advice agencies have said that they often find it difficult to get a fuel direct arrangement set up, although experience tends to vary around the country.

Although some disadvantaged customers find fuel direct useful it can cause problems for those who use it. Apart from the concerns about the amount of income going in fuel direct, another concern is that households who are not having to budget regularly themselves may be less inclined to control their consumption and will risk building up more debt. A substantial number of fuel direct claimants have been on it for several years and still have debt. Being on fuel direct may in some extreme cases act as a disincentive to come off income support (by getting a job), due to worries about how the debt would be paid off.

Given the changes in usage and the various concerns outlined above, the Department of Social Security (DSS) has been considering what the role of fuel direct should be in the future. Should it be viewed as a "last resort" payment method, as a means of avoiding disconnection, to be used only in cases where a prepayment meter is not suitable (due to disability/infirmity of the claimant, or distance from prepayment meter charging points, for example); or should it be seen instead as a payment method which households who have debt or payment problems should be able to choose as an alternative to a prepayment meter?

It may be possible in the future to develop new systems such as the Irish Household Budgeting Scheme under which claimants can choose to have payments for a range of bills deducted from benefits and paid to suppliers. This would in effect be rather like a version of direct debit. However, DSS plans to computerise benefit payments (an essential precursor to a manageable and cost-effective system) will take some time to implement, so this is unlikely to be a short term solution.

OFFER/Ofgas have had some discussions with DSS (which is responsible for decisions about fuel direct). It would inform these discussions to have views from the industry and consumer groups.

What role should fuel direct have? Should it be viewed as a “last resort” or a payment method which households in debt or with payment problems should be able to choose as an alternative to a prepayment meter?

Is there the need for more discussion between OFFER/Ofgas, consumer groups, suppliers and the DSS about the role of fuel direct and the development of new initiatives like the Irish Household Budgeting Scheme?

Are there any changes which would help to make the existing fuel direct scheme work better?

5.2.4 (d) Security deposits

Licensed electricity suppliers have the right to request a security deposit, except where the customer is supplied via a prepayment meter or it is "unreasonable in all the circumstances" to do so. The licence specifies the amount that can be requested as a deposit. The licensee pays interest on the deposit whilst held. The percentage of domestic electricity customers asked to pay a security deposit has decreased over the past eight years, from 0.25 per cent in 1990 to 0.025 per cent in 1998. There is considerable variation in practice between suppliers, with some not requiring security deposits at all. OFFER issued best practice guidance to companies to ensure that their Codes cover the circumstances in which customers may be required to give security. Generally, these are: a poor payment record; short term accommodation; a poor credit reference; and a new customer without evidence of creditworthiness. The Codes also cover other forms of security acceptable to the supplier, for example: a prepayment meter; a guarantor; payment by direct debit or other payment schemes; and when a deposit will be repaid.

The gas licence entitles suppliers to request a security deposit as part of their contract to supply, provided this does not exceed either what is reasonable in all the circumstances of the case, or the two highest quarters' consumption. While the company holds the deposit it will pay interest to the customer. If the customer demonstrates a good payment record over a period of 12 months the deposit must be repaid. If the customer is unwilling or unable to pay a security deposit, the supplier must offer the alternative of a prepayment meter.

In general it would appear that security deposits do not represent a major problem for customers. However, **views are invited on whether there are there any problems with security deposits which would require any further action to be taken by the regulator.**

5.3 *Hard to Heat Homes*

Hard to heat homes give rise to particular problems for disadvantaged customers. For those households which need to use in excess of 20 per cent of income to achieve adequate levels of comfort the problem is particularly acute. Energy efficiency measures are widely recognised as having the potential to bring significant benefits in terms of increased comfort for disadvantaged customers and, in some cases, lower bills. These measures may be particularly important in Scotland and the north of England. This section considers the role of energy efficiency advice; standards of performance; and developments in the competitive market including energy service companies.

Government and local authorities also have an important role to play here. Initiatives such as the Home Energy Efficiency Scheme (HEES) can provide valuable benefits for disadvantaged customers. Action by the regulator needs to be co-ordinated with Government initiatives in this area. OFFER/Ofgas will work closely with the Department of Environment, Transport and the Regions (DETR) in order to help maximise the effectiveness of action under the Plan by the electricity and gas industries.

5.3.1 *Energy Efficiency Advice*

All electricity and gas companies are required to have Codes of Practice (or equivalent) on the efficient use of electricity/gas, the details of which are approved by the regulator. They include information and advice on efficient use and details of how to obtain further information from the supplier or other sources.

Most of the Codes (or equivalent) on payment of bills and dealing with customers in difficulty link energy efficiency advice to debt situations. However, it is not clear how pro-active companies are in making customers aware of the energy efficiency Code or indeed how widely it is distributed. Only one company states in its Code that it will send a copy automatically to customers it identifies as having payment difficulties. It is therefore difficult to assess whether the advice is received by those who could benefit.

In addition to helping customers already in debt, energy efficiency advice could help prevent the build up of debt and make more comfortable the lives of those who have to budget strictly to pay their bills. The Codes of Practice therefore set the appropriate framework for companies to help customers but more may need to be done to ensure that they are effective. Some environment and customer groups have suggested that the Codes should be more widely distributed - perhaps issued routinely with bills or in more targeted ways to customers who are facing payment difficulties. Others have questioned the likely costs and benefits of such an approach. Some question more generally whether the energy supply companies are likely to be seen by customers as the most effective and credible source of advice on energy efficiency matters. Previous proposals in this area have suggested that energy efficiency advice should be handled for the companies by specialist agencies funded by the suppliers.

OFFER/Ofgas will undertake more pro-active monitoring of action on energy efficiency advice to establish: examples of good practice which could be more widely promoted; and whether there are matters which need to be tackled either through better compliance with existing requirements or through new requirements being placed on suppliers.

Views are invited on whether companies should be more pro-active in helping households with payment difficulties or debt to gain the benefits of energy efficiency. How should companies do this? There are a number of options:

- offering energy advice to all such households at regular intervals - for example by referring to energy advice in debt follow-up letters and following these up with visits;**
- providing information via meter reading and/or directing contact towards customers using a particular payment method; and**
- informing such households of the availability of help with the costs of energy saving measures such as via the Home Energy Efficiency Schemes.**

What specific benefits would such measures have for disadvantaged customers and what impact would they have on suppliers?

Should the energy efficiency initiatives described above also be offered to other disadvantaged households who have not yet had debt or payment problems? If so, how could this be done effectively?

5.3.2 Energy Efficiency Standards of Performance

The main role of electricity companies in going beyond energy advice has been through the electricity standards of performance scheme, designed to deliver savings in the number of kWh of electricity used by households and small business customers of the Public Electricity Suppliers. Performance requirements are set by the regulator for the Public Electricity Suppliers. Under the standard, companies are required to take the interests of consumers into account, particularly those who are elderly or disabled or who may have difficulty paying for electricity. Over 60 per cent of expenditure has been used to support projects which benefit low income customers, including for example insulation schemes, and the provision of low energy lamps through caring agencies.

OFFER/Ofgas will be consulting during the summer on the future of standards of performance for the promotion of energy efficiency. This will consider whether further requirements should be set in electricity when the present standards end in March 2000. It will also consider the position of second tier electricity suppliers where standards cannot be set at present. In addition, it will review the position in the gas industry. If new standards are to be set it will be important to consider the appropriateness of focusing the benefits to be delivered from the standards on one set of customers. If significant focus is to be given to disadvantaged customers the implications for environmental policy will also need to be considered. As the Government has indicated that it expects to set standards on energy efficiency itself in future, it will be important to learn more about the Government's intentions on these and other matters before finalising the position in the Autumn.

5.3.3 Beyond Energy Advice to Affordable Warmth

A number of companies have also supported projects outside the standards of performance scheme designed to help deliver "affordable warmth" for disadvantaged households. These include: an initiative by Transco with National Energy Action (NEA) on gas central heating for local authority tenants; a Transco/Combined Heat and Power Association initiative to promote CHP in social housing; MEB funding to NEA to assist disadvantaged households with a range of energy efficiency measures; and British Gas Trading assistance to Help the Aged. These projects have been funded out of company profits rather than by other customers.

Some affordable warmth initiatives are not just charitable endeavours as they can also benefit companies by helping to develop new markets and customers - for example, fitting gas central heating or a CHP system will help to develop the market for gas. Companies could also gain

other benefits from helping disadvantaged customers - for example, by switching households from on-peak to off-peak water heating. A relatively high proportion of households use on-peak electricity to heat water, in both the private rented (30 per cent) and the social housing sector (17 per cent). Switching from peak to off-peak water heating (which will cost around £50-100 to provide the necessary equipment) could potentially be beneficial to electricity suppliers (and all their customers) as this would reduce peak demand, and thus lessen the need to reinforce and upgrade the distribution system. Switching from peak to off-peak water heating has not been funded under the electricity standards of performance as it shifts electricity use from peak to off-peak rather than reducing the amount of electricity used. Although this is a benefit which can be taken into account under the standards it is subsidiary to the electricity saving criterion and cannot substitute for it.

There is therefore a question of whether companies could and should be doing more in this area, either through a standards of performance scheme or in some other way.

What role should electricity and gas companies play in helping disadvantaged households to achieve affordable warmth? Is there scope for more voluntary initiatives of the types outlined above?

What, if anything, should the regulator be doing to encourage electricity and gas companies to help disadvantaged households to achieve affordable warmth?

How can affordable warmth initiatives taken by the companies be effectively co-ordinated with other initiatives in this area, notably the Home Energy Efficiency Scheme?

5.3.4 Energy Service Companies

Energy service companies (ESCOs), which link energy supply and energy efficiency, are another type of innovation with the potential to develop in the competitive market. Some local authorities are particularly interested in developing ESCOs which can serve low income households. The potential role for local authorities in this area was described in the Ofgas guide to gas competition for social landlords²⁸. However, local authorities face some difficulties at present in developing ESCOs due to limited legal powers.

²⁸ Gas Competition and Your Tenants. A Guide for Social Landlords. Ofgas 1998.

The arrangements for the gas and electricity supply markets provide for suppliers to offer contract packages combining energy supply and energy efficiency services. However, some suppliers and others have said that the requirement that suppliers allow customers the right to terminate the energy supply element of the contracts on giving 28 days' notice is a barrier to ESCO contracts being marketed to low income customers, because of the risk that the customer may not pay off sums due in respect of the energy efficiency services provided. To meet this concern, the gas and electricity supply licences provide that the supplier with whom the customer has signed an ESCO contract may demand reasonable security in respect of such debts in the event of the customer switching supplier.

The Eaga/Scottish Power "Power for Low Income Families" initiative (Appendix B) is an example of how new forms of supply might be developed to help low income households. This scheme is innovative because it combines debt repayment with measures to help prevent debt and achieve affordable warmth. Another example is the development of residential CHP schemes, such as the one run by St Pancras housing association (see Appendix B) which enables low income tenants to have lower price heating and electricity.

Should OFFER/Ofgas identify action which could be taken to promote good practice and stimulate innovation in energy supply/energy services to disadvantaged customers? Initiatives could include good practice guides, seminars, joint activity (for example, with the Local Government Association, DETR etc). Suggestions for action in this area would be welcome.

Can companies and others with an interest in the development of ESCOs provide evidence of the ways in which the regulatory regime and/or other factors (for example local authority powers) are barriers to ESCOs being offered to disadvantaged customers?

What other innovative schemes could be introduced by companies? Are there appropriate ways in which the regulatory regime could incentivise such initiatives?

5.4 Special Needs

All suppliers are required under their licences to provide certain services for pensioners, disabled and chronically sick customers. These are described generally in chapter 3.

From April 1999, electricity suppliers have been required to report to OFFER on the range and number of the services that they make available to customers, including customers receiving

talking bills or bills in Braille, and whether they make any charges for them. As a condition of their licence, all gas suppliers have to report to Ofgas and the Gas Consumers Council, and publish annual reports on their performance on the social obligations in the licence. These reports include information on the numbers of blind and deaf customers who have been assisted. In order to improve the quality and consistency of reports, Ofgas has recently issued guidance to suppliers on the reporting requirements in the licence. The review of the Action Plan will consider what is presently provided for disabled customers and whether there is a need to improve the present position.

Monitoring of social obligations is clearly a key area for OFFER and Ofgas. There have, however, been some problems with monitoring social obligations to date. When the charity NEA undertook a research exercise in this area in 1998 it took several weeks to obtain information from some of the companies on their social obligations and there were a number of discrepancies with the figures published by Ofgas. NEA concluded that there were very different approaches towards obligations among companies which might help to explain differences in the take-up of special services. For example, some companies reported a 30 per cent take-up of free safety checks by Care Register customers, while others reported take-up as low as 1 per cent. Some companies however have developed good practice in this area which goes beyond the minimum requirements.

In view of the differences in practice to date between OFFER/Ofgas and the different company practices, consideration should be given to whether and, if so, how to introduce a more proactive and consistent approach to monitoring and the provision of services by companies. Good practice could be publicised to inform customers of the services available, and to improve standards across the board by encouraging all companies to reach those standards.

Some groups have suggested that more prescriptive requirements should be placed on the companies - for example, to require all suppliers to provide some or all of the services currently offered voluntarily by some suppliers. However, there does not appear to be a general consensus that the services provided are materially deficient. **Views are invited on whether present services to customers with special needs should be improved; whether improvements should be required through licence conditions or the companies incentivised in other ways to improve services for customers with special needs.**

Views are also invited on whether: there is a need to align services provided by gas and electricity suppliers; there are other actions which companies should take to assist customers

with special needs; and whether monitoring should be more pro-active, and consistent between electricity and gas.

5.5 *Reliance on Prepayment Meters*

Whilst prepayment meter customers are an imperfect proxy for disadvantaged customers, it is the case that many disadvantaged customers use prepayment meters. The use of prepayment meters gives rise to particular difficulties for users. Although research suggests that the majority of prepayment customers like their meters because of the control they give them over payment and energy use, there is concern that this method of payment results in more limited choice, higher prices and poorer service for all prepayment meter customers. Other sections of this chapter discuss some elements of this: the surcharge for prepayment meters; the opportunities to switch to lower cost payment methods; and problems associated with accessing the competitive market. This section considers the practical issues associated with prepayment meter use, including self-disconnection, technical issues and emergency credit.

5.5.1 *Self-Disconnection or Rationing due to Poverty*

Section 2.3.2 set out the background to this issue. While the studies to date on self-disconnection cannot be regarded as conclusive, due to their small size and the different questions asked, they do suggest that self-disconnection due to poverty is not a widespread or regular problem for prepayment meter users. Self-disconnection tends to take place infrequently and mostly for fairly short periods. The extent to which such interruptions are due to a general and extreme shortage of money, as opposed to short run cash problems and/or difficulties accessing meter charging points, is not entirely clear. However, what seems to be more prevalent, certainly amongst gas prepayment meter users, is rationing of use so that supply is maintained, but less gas is used. Nearly half of households who can compare their consumption said that they used less gas since having a prepayment meter installed. It seems likely that a similar position applies in relation to electricity.

For some households, the direct control over expenditure which a prepayment meter provides may be considered a positive feature. Reduced expenditure may reflect the use of sensible economy measures. However, extensive rationing of use could be a matter of concern if households were restricting their use of gas and electricity to levels which could harm their health and make their lives very uncomfortable. Extensive rationing of use could signal the need for help and advice and investment in energy efficiency measures to reduce the level of

expenditure required. A number of electricity companies have put in place procedures to monitor and follow up customers who do not charge their meters for a period of time.

Views are invited on whether there is a need for further research on self-disconnection and on rationing of use to ascertain whether this is causing hardship. How are self-disconnection or substantial rationing defined? Would it be useful to compare low income prepayment meter users with low income customers who do not have prepayment meters?

Should companies be required to take any action to identify customers who may be self-disconnecting or engaging in substantial rationing of use? If so, what action should companies take when they identify such customers? For example, customers could be informed about HEES grants or referred to relevant agencies for benefits advice.

5.5.2 Practical Problems with Using Prepayment Meters

Practical problems of accessing fuel can arise with prepayment meters for several other reasons. These include difficulties with using charging points due to the distances to reach them, or hours of opening, or faults due to the charging point being out of order, and meter or card breakdown.

In 1998, OFFER set the first standard in this area: a Guaranteed Standard on the repair of prepayment meter faults (all PESs are required to respond to faults within three or four hours depending on when the fault is reported). No standards have been set by Ofgas. OFFER is currently considering, as part of the price control review, whether standards covering prepayment meter services continue to be appropriate.

Views are invited on the need for standards for prepayment meters covering matters such as: distances between and hours of opening of charging points; breakdown or faults at charging points; and card/key faults.

As noted in chapter 2, practical problems with prepayment meters may be a particular concern for people living in rural areas or on housing estates without reliable, affordable transport, or for people with disabilities or long term sickness. This may mean that prepayment meters are unsuitable for some types of customer and alternative payment methods (including fuel direct) should be used where possible, although it could be argued that customers should still be free to choose a prepayment meter if they wish. Many suppliers pay attention to these issues, but there may be scope for the spread of good practice in this area.

Views are invited on whether suppliers do enough to ensure that alternatives to prepayment meters are provided/offered to customers who, through disability, sickness or location/access to transport might have considerable practical difficulties in using them. Would it be appropriate to take action to promote good practice in this area and for suppliers to report on this to the regulator?

5.5.3 Emergency Credit

Customers with prepayment meters may need access to emergency credit either because they have run out of money (when they are waiting for their benefit or wages, for example) or because of practical difficulties such as access to charging points and faulty charging points or cards. The provision of emergency credit varies between gas and electricity: £2 in gas; £5-10 in electricity. Doble et al²⁹ consider £2 to be too low in gas as it would not see an average user over a winter weekend. This is likely to be a particular issue if customers have problems with the proximity and opening hours of charging points. On the other hand, if emergency credit levels were set very high, customers would have to buy large amounts of credit before they could access supply again. A balance therefore needs to be struck. Consideration also needs to be given to the costs of implementing any change and the technical restrictions imposed by the various prepayment meter systems.

Views are invited on whether there should be a common, minimum level for emergency credit for gas and electricity prepayment meters. If so, what would be a suitable amount?

5.5.4. Prepayment Meters and Debt Recovery

Where households repay debt through a prepayment meter, some concern has been expressed by the Electricity Consumers' Committees about the problems faced in the winter when households have to buy more credit to run their heating systems. The level of debt collection is required to take account of a customer's circumstances. However, the way in which meters operate can have a significant impact on customers. For example, debt recovery based on excess unit charges makes debt recovery during winter months particularly difficult. It might be possible to alleviate this problem by calibrating meters to collect debt only in the summer months or to collect it at a higher rate in that period. This would help to even out fuel payments over the year. An alternative would be to ensure that meters only collected debt on a daily basis - although this has some disadvantages as customers can get into debt during periods

away from home. Again, consideration needs to be given to the costs and practical means of implementation.

Views are invited on whether guidance should be given to suppliers in this area.

5.5.5 Overview on Prepayment Metering

The issues raised in this section overlap. They are closely associated with the technical specification of prepayment metering and the availability of charging points. Whilst more advanced features and developments in technology may provide service benefits to customers, there may also be higher costs associated with the widespread introduction of new technology and/or the significant extension of charging points. The introduction of competition in metering provides new opportunities to develop services more closely linked to supplier and customer requirements.

Views are invited on the likely development of prepayment meter services as competition develops; whether there are regulatory barriers to desirable developments which require action by the regulator, or whether matters can be left to the companies; and whether, within the framework provided by existing technology, worthwhile changes in the services made available to customers are practicable.

In this section, a number of proposals have been suggested and questions raised about the need for further action on interruptions to supply through self-disconnection. It has been suggested by customer groups that the issues, and arrangements to deal with them, are important enough to merit incorporation into a new Code of Practice. Codes on payment of bills and guidance for dealing with customers in difficulty already include some information on prepayment meters.

Views are invited on whether a Code of Practice on supply interruption through self-disconnection and/or on prepayment meter services generally would be helpful.

5.6 Access to Competition

²⁹ Doble, M et al. 'Utility Regulation - fairness for all?' Response to the Government's Green Paper, CMR Research Paper No 982

In chapter 2, we saw that, despite the developments in competition to date, it remains the case that disadvantaged customers have difficulties accessing the benefits of the competitive market. These problems arise for a number of reasons, including:

- ◆ disadvantaged customers tend to use payment methods which are more expensive to provide and hence less attractive to suppliers, such as frequent cash payment or prepayment;
- ◆ prepayment meter services are not fully open to competition; and
- ◆ market rules which restrict customers in debt from moving.

This section considers these barriers and the measures that might be taken to overcome them.

5.6.1 Payment Method Barriers

It appears that, at present, customers seeking supply on prepayment meter or regular cash plan terms are not attractive to most entrant suppliers. In the early stages of competition it can be expected that new suppliers will focus on areas where their opportunities for profit are greatest. This will tend to be in areas where the charges levied by the incumbents are too high in comparison with costs and/or in areas where new entrants have particular cost or other advantages (perhaps because of new technologies or other economies).

Incumbents generally argue that their charges to customers using cash payment and prepayment methods are (relatively) too low. This is by no means conclusive, but entrants may face additional cost disadvantages in servicing these customers. The provision of cash handling services is likely to be expensive to provide where the density of customers using the service is low. However, if new entrants can gain access to national services like the Post Office and (increasingly) PayPoint on attractive terms, then these problems could be reduced. In the case of prepayment meter customers, support services in both electricity and gas are largely monopolistic and, in the case of electricity, no national service exists. The development of competition could help in this area. This is discussed in more detail below. There is some evidence that, for smaller suppliers, the administrative infrastructure associated with regular cash payments may be difficult to sustain for low numbers of customers.

Over time, some of these barriers may reduce. As competing suppliers become more established, they can be expected to seek new opportunities to supply customers. Innovation in tariff design and services can be expected to bring benefits to disadvantaged customers. There is already some limited evidence that this is occurring.

Some customer groups and others have questioned whether, in practice, such developments are likely to have a significant impact in the short to medium term. They point to evidence that, where possible, suppliers may be deliberately seeking to avoid supplying customers who use cash-based payment schemes. This might be achieved by a variety of means, from selective marketing and limiting the availability of information about cash-based payment options, to the active deterrence of customers using such schemes through pricing policies or other means.

Some commentators have suggested that the regulator should take action to prevent such policies. This might involve requiring suppliers to target a range of customer groups in their marketing. Such a policy would be difficult to police in practice. It would represent a significant restriction on the freedom of new suppliers to market their products to those customers they wish to supply. It would require the detailed policing of market, customer information and pricing policies. Inevitably, such detailed regulation would tend to stifle innovation and deter entrants into the market. In doing so, it would reinforce the market power of incumbent suppliers and reduce the downward pressure on prices that competition is producing. Accordingly, OFFER/Ofgas believe such policies would not be in the interests of disadvantaged customers. However, OFFER/Ofgas will monitor company practices and take appropriate action against any company which adopts unfair or misleading marketing practices.

Better means of addressing these issues would be to encourage companies to look for ways to reduce the costs of prepayment meters and cash payment, and to encourage companies and customers to reduce the present reliance on prepayment metering and other expensive to serve payment methods. Some customers presently using these methods would benefit from a change to other payment methods. In many cases, of course, customers and suppliers have agreed that regular payments or prepayment metering is appropriate and is providing real assistance in helping customers to budget for the fuel they need. Even in these cases, however, new and innovative schemes bring the possibility of reducing the cost of serving such customers. A programme of work in this area could bring immediate benefits to disadvantaged customers and provide new opportunities for them to access the competitive market.

Views on these issues and the appropriate respective roles for the companies and OFFER/Ofgas are invited.

5.6.2 *Prepayment Meter Services*

In both the electricity and gas markets, the provision of prepayment meter services is largely monopolistic. The meter itself is provided by the transportation or distribution business to suppliers. The infrastructure is provided by PES supply businesses in the case of electricity and by the Quantum office (which is owned by Siemens Metering) in the case of gas. Alternative meter and service providers could operate in gas and, from 2000, in electricity. At present, the extent to which new service providers will enter this market is uncertain. However, it seems likely that over time the systems offered by the incumbent suppliers will be used in a dual fuel market. One possibility might be for a single prepayment meter to collect payments for both fuels.

The planned extension of competition into metering and meter reading services in both gas and electricity is likely increasingly to reflect the true costs of providing these services and the charges they raise. The regulator will need to have regard to the potential for additional costs falling on disadvantaged customers when taking decisions on the unbundling of services. On the other hand, there may also be scope for reducing costs through new technology and competition in metering services. This could result in cheaper, longer lasting meters, with improved reliability, which would mean lower prices for customers. There is also the possibility of simplified meters (for example, without a debt facility) or joint electricity/gas meters, but it is unclear at this stage how much cheaper these would be.

Views are invited on what further steps are needed to promote competition in respect of prepayment metering and the likely implications of this for customers.

5.6.3 *Debt and Competition*

In the competitive market, gas and electricity suppliers' licences enable them to assign unpaid final bill debts. Suppliers can also block the transfer of customers with debt. This "objection" process imposes costs on new suppliers and may deter suppliers from offering supply to customers thought likely to be in debt.

Many disadvantaged customers in debt could benefit from lower prices if they were able to switch suppliers. Currently, a number of second tier electricity suppliers will charge an administration fee as well as recovering the debt if they take on an assigned debt. Usually, the

contract states the fee will cover "reasonable" administration costs. In gas, the administration fee has been agreed by suppliers, under the auspices of the Gas Suppliers' Forum, at £25. Questions about identifying and removing barriers to assigning debts are being taken forward in the context of Ofgas and OFFER's ongoing monitoring/review of the domestic supply market. Changes here may also help overcome supplier concerns about marketing to disadvantaged customer groups. Some suppliers have, however, expressed concern that a relaxation of present policy may worsen suppliers' bad debt problems.

Views are invited on the need to re-examine the licence conditions concerning debt provision to enable customers with debt to switch in order to benefit from lower prices. What impact would this have on suppliers and customers?

5.6.4 "Dual Fuel" Contracts

Competitive markets provide scope for innovation. One innovation is the provision of "dual fuel" contracts, for the joint supply of gas and electricity. As such contracts could lead to lower costs for suppliers, they could provide customers with the benefits of lower prices, for example, it may be possible to reduce the costs of frequent cash payment. However, some consumer organisations have expressed concerns about dual fuel contracts, including how customers who may have debts for both fuels would apportion debt repayments. This might suggest the need for some form of code of practice or licence condition. There may also be some concerns if the main benefits of dual fuel contracts, in terms of lower prices, are available mainly to people who pay by direct debit.

Does the development of "dual fuel" contracts raise any particular matters of concern in respect of disadvantaged customers which would require action by the regulator? What, if any, benefits could dual fuel contracts offer disadvantaged customers?

5.7 Information

5.7.1 Information on Competition

Chapter 2 has shown that disadvantaged groups have a lower understanding and awareness of the changes in the electricity market and that they have a lower awareness of price differentials. It also reported that lower income groups had lower switching rates.

Customers' awareness of the changes in the electricity market may improve as the market develops (as in gas). However, there is the immediate possibility that a lack of knowledge and

information about the market may be affecting the customer groups switching and indeed contributing directly towards the lower number of switchers in certain disadvantaged customer groups.

Chapter 2 summarised how certain customer groups are generally disadvantaged in a number of ways including low income and unemployment. In terms of entry into the competitive market, these customers may be disadvantaged not only because of the characteristics described in chapter 2, but also by greater barriers to entry including lack of information.

Is there anything additional that could be done by the industries and/or the regulator to improve, especially amongst lower income customers, the level of awareness of competition, what is involved and its benefits?

5.7.2 Information on Prices

In general, one might expect customers to make economically rational choices and only to switch supplier if they are going to make a saving. However, concern has been expressed that some customers may not know that the new supplier's charges are higher than the existing supplier's. Research undertaken by the OFT in 1998 revealed that vulnerable consumers were more likely to experience higher search costs and difficulties in assimilating information than consumers in general. This can mean that such consumers make inappropriate purchases and hence "experience a loss in economic well-being similar to the effects brought about by monopoly"³⁰.

Suppliers are required to publish their prices. The introduction of the Association of Energy Suppliers' (AES) voluntary code of practice, under which AES members agree to provide consumers with written information about prices during doorstep sales, should help to improve matters. However, not all suppliers are members of the AES and there is no involvement of OFFER/Ofgas in monitoring the adequacy of such information, or indeed whether it is being provided in all or most cases.

Concerns have also been expressed about price comparison information being misleading in some cases. It is important that customers have full and clear information about prices (and the main terms) available to enable them to compare prices. With assistance from Which? OFFER/Ofgas publish price comparison information in the gas and electricity markets but this

cannot continue indefinitely. The new Energy Consumers' Council will also have an important role in providing customer information.

Views are invited on whether OFFER/Ofgas should - if industry initiatives prove inadequate -- consider introducing new conditions to require all suppliers to provide customers with written information about prices and tariffs. If so, in what circumstances should that requirement apply? Views are also invited on whether there is scope for agreeing a more standardised presentation by suppliers of price information.

Is there scope for suppliers to do more to promote the "best deals" for prepayment meter and frequent cash payment customers and, if so, how could this be done most effectively? One idea could be "affinity" relationships between relevant suppliers and caring agencies, rather like the links between some environmental organisations and suppliers offering "green" electricity.

5.7.3 Information on Companies' Obligations Towards Customers

Chapter 3 summarised the obligations on suppliers to deal with certain groups of customers, such as the elderly and disabled, and those who have difficulty paying their bills. Sections 5.2.4 and 5.4 briefly considered company performance in these areas and sought views on whether there was any more that companies could do. It is also for consideration whether customers are sufficiently aware of the companies' obligations towards them (as laid out, for example, in the Codes of Practice in electricity). Better knowledge by customers of what they are entitled to expect from companies, and where they can go if they are unhappy with the way they are treated, would help customers in general and would be of specific benefit to certain groups, such as those on low income. MORI research has shown that customers in social classes D and E are likely to be least aware and informed, and the impact of language barriers of vulnerability has also been noted. There may be scope to improve the means that companies use to inform customers, as for example one PES which has recently begun sending a summary of its Code of Practice on complaint handling to all customers registering a complaint.

What further steps should companies take to bring their obligations under the licences to customers' attention?

5.7.4 Information on Company Action

³⁰ OFT Vulnerable Consumers and Financial Services. The report of the Director General's Inquiry

As noted in this paper, many companies already have programmes of action designed to assist disadvantaged customers. Companies also have licence requirements concerning disadvantaged customers. The proposals in this paper build upon existing initiatives. The revised Plan is likely to contain a mixture of formal proposals for change to existing requirements, together with areas that companies should be actively considering as part of their own response to the social action agenda.

It would be desirable to bring information together publicly about the actions of the companies under the Plan. This would help in the assessment of the effect that the Plan is having, highlight areas for further action and encourage best practice. It would also ensure that suppliers reported to their customers and shareholders on the action they are taking to enhance the social responsibility of their businesses.

Views are invited on this proposal. If reports should be provided, should they be made public; should they be provided by all suppliers and separately by gas transporters and electricity distributors, and, if so, how often should they be produced; and should any guidance be given on their content?

6. Towards A New Plan

6.1 *Prioritisation*

In previous chapters of this document, we have described the scale of the problems experienced by disadvantaged electricity and gas customers. We have set out the legislative and licensing background within which the new Social Action Plan will need to work. We have also described the principles which we believe should underpin the new Plan.

In chapter 5 we set out in detail some of the main areas where action might be considered to assist disadvantaged customers. The agenda described there is extensive. For the Plan to be effective we will need to prioritise and timetable possible actions. We will also need to take fully into account the needs of customers and the particular circumstances in Scotland, Wales and the English regions.

This chapter starts that process by proposing a prioritisation of issues. In making these proposals, we have sought areas which hold out the prospect of providing the most significant benefits to disadvantaged customers. It is also desirable to address a range of different aspects of disadvantage. We have also considered the resource commitment required from the regulator and the industry.

This however is only the start of the process. The new Plan will be developed following a period of consultation and discussion. Contributions to the discussion are already coming forward. The National Electricity Consumers' Council (formerly the Chairmen's Group) has published its own thoughts on appropriate social actions and the Gas Consumers' Council, in its recent annual report, has made its views known. We welcome a full debate.

We set out below a list of nine possible priority measures together with a summary of the policy background. The order of the priorities is not intended to be of significance. This is an attempt to begin drafting a tentative list of priorities for respondents to comment on. We would be interested to hear whether these are considered to be the most appropriate policies and, if so, how they could be put into practical effect. We are of course aware that there are other practical measures which could be identified and would welcome all relevant views.

- ◆ *Ensure that customers using expensive payment options have an informed choice of alternatives and a better means of accessing cheaper methods.*

Chapter 2 outlined the many problems which prevent certain groups of customers from being able to choose the cheapest method of payment. Low income customers are at a disadvantage not only as a result of their economic position but also because their knowledge and awareness of the competitive market, entry into which would enable them to save money, is lower than that in other customer groups. Much could be done to improve this. This is important because, as mentioned in chapter 5, "...if you can make a saving it's more clothes on your back, food for your kids; it makes life easier to live with".³¹

More immediately, there are millions of prepayment meter customers, many on low income, paying more than they need to for electricity and gas. Where the decision to pay by this method is an informed choice, then that choice must be respected. Chapter 2 demonstrated however that many customers did not know that prepayment was not the cheapest method of payment; indeed, many thought that they were paying by the cheapest method. At the same time, two thirds (66%) of electricity prepayment meter customers interviewed by MORI³² claimed that they had not been informed they could revert to a credit meter; if this option resulted in a reduced price for electricity, about 20 per cent said they would change to a credit meter (more than one million customers if we extrapolate from this percentage figure to the population of electricity and gas prepayment meter customers). This could save disadvantaged customers between £15 - £30m a year depending on tariff.

- ◆ *Overcome barriers to disadvantaged customers participating more actively in the competitive market through better information and a reconsideration of rules on customers' debt.*

Chapter 2 set out the difficulties experienced by disadvantaged customers in accessing information about the competitive market and in comparing prices and services. Chapter 5.7.1 and 5.7.2 set out possible areas for action on information provision. Chapter 5.6.3 set out the issues surrounding existing licence conditions on customers in debt who wish to switch supplier. Many disadvantaged customers can save significant sums on their electricity and gas bills by switching suppliers.

- ◆ *Ensure that suppliers enter an effective dialogue with customers in debt.*

³¹ From MORI's Qualitative Research, quoted in 'Electricity Competition Review': Research Study Conducted for OFFER (forthcoming publication).

³² MORI electricity study

Chapter 2 indicated that the overall levels of disconnection for debt have fallen dramatically over the last ten years. The number in gas is substantially higher than that in electricity and has been on a rising trend in the last two years. Establishing contact with customers to agree arrangements to avoid disconnection is of particular importance in gas. Many prepayment meters continue to be installed annually to recover debt and many of these remain in situ when the debt is cleared.

There is scope to examine whether alternative payment arrangements should be considered more readily when companies are discussing payment arrangements as part of their debt and disconnection procedures set out in their Code of Practice (or equivalent). There is also the potential for energy efficiency measures to reduce the risk of further debt, as is being done in the Scottish Power/Eaga pilot.

Chapter 5 also raised the issue of customer awareness of provisions under the licences and whether customers might benefit from having more information about companies' obligations towards them.

- ◆ *Encourage the development and availability of new, alternative and cost effective payment methods and tariffs which meet the particular needs of vulnerable customers.*

Chapter 5 pointed out that electricity tariffs are characterised by a combination of fixed (standing) and variable (unit) charges. The effect of the fixed charge is that, as consumption in electricity falls, customers pay proportionately more per unit of electricity. Several electricity companies have already developed special tariffs for customers who consume low amounts of electricity, including, in particular, lone pensioners. Similar considerations apply in gas supply.

At present, electricity customers will benefit under these tariffs if they consume below 1000 units per annum. There may be scope for reviewing these tariffs and the level of consumption at which customers begin to benefit in comparison with standard tariffs.

Chapter 2.3.1 outlined the range of payment methods used by low income households. For these customers, prepayment meters and regular cash or budget plans are particularly important. Chapter 5 referred to the additional costs to customers generally associated with frequent payment methods and asked a number of questions about how matters could be

improved. Many companies already make use of accessible outlets for frequent cash payment, such as PayPoint or Post Offices, at no charge to the customers concerned.

Chapter 2 outlined the many problems which prevent certain groups of customers from being able to choose the cheapest method of payment. Absence of bank accounts, for example, makes it impossible for low income customers to use direct debit (the cheapest tariff). Consideration needs to be given to new policies and practices which will develop the means to allow customers to benefit fully from cheaper payment methods. Chapter 5 outlined a number of possibilities.

- ◆ *Overcome barriers to suppliers' access to cost-effective prepayment meter systems and other regular payment methods.*

As outlined in chapter 5, the provision of prepayment meter services is largely monopolistic in the electricity and gas markets. The extension of competition into meter and meter reading services may provide scope for reducing costs through new technology and competition in metering services, resulting in cheaper, more reliable and longer lasting meters. New, simplified prepayment meters or joint electricity/gas meters might also be possibilities. These developments would mean lower prices for customers.

At the same time, competing suppliers can be expected to seek new opportunities to supply customers, leading to innovative tariffs and services which could bring benefits to disadvantaged customers irrespective of payment method.

- ◆ *Encourage and develop innovative schemes to improve energy efficiency in disadvantaged households.*

Chapter 2 looked at the level of fuel poverty in England. Fuel poverty and homes which are difficult to keep warm present difficult problems for many disadvantaged customers. As pointed out in chapter 5, improved energy efficiency could provide significant benefits, either through improved levels of comfort, or lower bills, or both. Improved energy efficiency could also help customers already in debt and help to prevent others from accumulating debt. In addition to the role of the present energy efficiency standards of performance and other schemes, such as HEES, there is scope to develop innovative schemes.

- ◆ *Cutting costs to customers through price controls and ensuring greater competition in generation.*

Chapter 3 reviewed the price controls set by the regulator and, within these, the steps that OFFER and Ofgas have taken to ensure that disadvantaged customers are protected. In reviewing whether the restraints should continue beyond March 2000, when the present restraints expire, the regulator will be looking at the experience of different customer groups in the competitive market and in particular how disadvantaged customers have fared. It will be necessary to ensure that all customers are able to benefit and, if they are not, to protect them in terms of price if necessary.

Chapter 4 referred to the Government's estimate that there is scope to reduce wholesale prices in electricity by 10 per cent. This would equate to about a 5 per cent saving on fuel prices for all customers. The reform of the electricity and gas trading arrangements and securing greater competition in electricity generation are important aspects of the regulator's policy to help all customers including the disadvantaged.

- ◆ *Put in place measures to resolve the difficulties encountered by prepayment meter customers.*

The recent MORI study showed that 43 per cent of customers think there are insufficient accessible places to obtain tokens/cards or get keys charged; one in ten believes that payment is not available in small enough amounts; 34 per cent frequently use the emergency credit facility. There is scope for consideration of the practical arrangements for this method of payment and whether new Standards are required. A number of electricity companies have introduced imaginative measures, including monitoring the level of payments to identify customers in difficulty.

- ◆ *To ensure companies report on their activities under the Plan.*

It will be important for all parties to monitor progress under the Plan if it is to succeed. As part of the monitoring process it will be appropriate for companies to report against their activities and the milestones incorporated in the Plan. The following section (6.2) considers elements of organisation, timetable and review. Company reports will comprise a crucial and detailed element of the review process.

Views are invited on these proposed priority areas for action under the Plan.

6.2 Organisation, Timetable And Review

As part of the work to merge OFFER and Ofgas, and establish a new management structure for the office, the Director General has taken steps to ensure work on the Social Action Plan is properly prioritised and integrated.

The agenda is a wide one, and it is considered vital to ensure all organisations with an interest have ample opportunity to bring forward views and suggestions. As well as inviting these in writing, it is hoped to hold meetings with companies, industry bodies, statutory and non-statutory consumer groups, Government departments and others to discuss the ideas outlined in this document. Adequate time must be allowed for this.

The timetable envisaged for finalising a revised Plan is, accordingly, as follows:

| | |
|--|--|
| Submission of views, and consultation meetings on this document | Complete by 16 July |
| Complete and circulate a revised draft Social Action Plan, proposing an agenda for action over the next five years | Publish by end September. Allow 6 weeks for comment |
| Publish final Social Action Plan, and take forward initiatives according to the priorities determined. | By end December |

It is important for several reasons to allow flexibility in the timetable. As mentioned in this document, a number of other reports with a bearing on the Plan will be discussed during the year. These include a report on prepayment metering costs in electricity, a consultation on energy efficiency standards of performance and proposals on price controls, all of which are expected to be published before the final Plan is published. This and other work will need to be taken into account in the development of the Plan. Work on ensuring industry systems are millennium compliant is a particular priority for the industries, and it will be important not to deflect attention from this.

Work will also need to take account of planning for the new Energy Consumers' Council, which will have a significant role in advising, monitoring and reviewing progress. The Council will also have an important strategic role in providing advice to customers. The current statutory consumer bodies may need to co-ordinate their plans in the interim.

It is proposed to establish a review group, chaired by the regulatory office, to assist in taking work on the Plan forward. This group should be representative of the industries, consumer groups, and Government. To be most effective, it is envisaged that membership should not exceed fifteen. **Views on composition of a review group and its role would be welcomed.** As part of the process we will need to institute a means for companies to report on their activities under the Plan. Views on how this could be done, and how it could be integrated with the work of the review group, would be welcome.

6.3 Overview of Issues

The preceding chapters have raised numerous issues of considerable importance to disadvantaged customers and for suppliers and others. The general approach proposed and the principles underpinning the revised Plan are set out in chapter 4. Our objective is to produce a new joint electricity and gas plan which:

- ◆ sets out a co-ordinated plan for action in both the gas and electricity industries;
- ◆ ensures that the social dimension is considered in all elements of gas and electricity regulation;
- ◆ sets out the contribution expected from the industry and others; and
- ◆ highlights areas for priority action by the regulator.

We have suggested that the revised Plan should focus on areas where assistance is most needed and where action taken by the regulator and the industry can have best effect. The Plan needs to take full account of the actions expected by others, including Government, and set out clearly the contribution of the industry and of regulation. The revised Plan will need to be fully integrated with all of the regulator's work and developments in the industry. In particular, it will need to work effectively against the background of increasingly competitive markets. Measures taken as part of the Action Plan should not deter or distort competition. Rather the

Plan needs to focus on areas where specific measures to protect customers and the development of competition can work together to bring benefits to the disadvantaged.

In chapter 5, we set out some 30 specific areas for consideration. It would be helpful to have views on these and how best to prioritise action under the Plan, whilst recognising the essential contribution to be made by other agencies. Our initial view on areas identified for priority action is given in chapter 6.1. At the same time, we would welcome your comments on whether there are any areas of particular importance to Scotland, Wales and the regions.

Appendix A

'Electricity Competition Review', a Research Study Conducted for OFFER by MORI (forthcoming publication)

A total of 1,212 interviews was conducted with domestic electricity customers in those areas opened up to competition by the end of December 1998. Interviews were conducted with the person wholly or jointly responsible for paying the household's electricity bill and who would make the decision to change supplier, either on their own or in consultation with another household member. The proportion of 'switchers' and customers in the E social class were boosted to allow for their separate analysis.

To ensure that the results are representative of customers in the areas selected, the data were weighted to the known profile of households by age and working status of head of household, as well as by the Sun Mosaic life code of those Enumeration Districts (EDs) in the areas opened up to competition, and the percentage of switchers understood to be in these areas at the time of fieldwork - that is, 5%. Data entry and analysis were carried out by Independent Data Analysis.

All interviews were conducted face-to-face, in-home, between 6 February and 15 March 1999. Fieldwork was carried out by MORI/Field & Tab. Interviewers were provided with a list of addresses within each sampling point (ED). They were instructed to leave at least three doors between each call. Half the interviews conducted by each interviewer were carried out in the evenings or at the weekend.

'Gas Competition Review', MORI, November 1998 'Customer Characteristics by Payment Method', Research Study Conducted for Ofgas by MORI, December 1998

National Quantitative Research, July/August 1998: 2,511 in-house, face-to-face interviews with household gas bill payers, including 803 interviews with switchers and 691 interviews with Scottish households, both of whose numbers were boosted to allow for separate analysis. Similarly, the proportion of "lower income" Enumeration Districts in the sample were boosted so as to provide a more robust sample of lower income groups for separate analysis. Data were grouped by postcode into gas competition areas using postcode lists supplied by Ofgas. Final data were weighted to reflect the known profile of gas customers in England and Wales, and Scotland, by work status, age, social group and switchers vs non-switchers. Fieldwork was carried out by MORI/Field & Tab between 11 July and 16 August 1998.

Appendix B Examples of Innovative Energy Supply Schemes to Assist Disadvantaged Consumers

Scottish Power/Energy Action Grants Agency “Power for low income households”

Scottish Power and Energy Action Grants Agency (Eaga) are collaborating on a pilot scheme to target low income households with an existing debt who may be excluded from many offers in the competitive market. The initiative comprises three elements: preferential rate for gas/electricity; energy efficiency measures; and debt management advice/benefits “health check”. For example, after having energy efficiency measures fitted, a customer with a £400 debt would pay £10 a week, with £2.50 of this going to pay off the debt which would be achieved in two years. The energy efficiency measures are assumed to lead to a fuel bill saving of 50p a week. Without these measures, the weekly payment to the supplier would have to be £10.50 and the debt repayment period would be 3.2 years. Energy efficiency measures are funded under HEES with the work being arranged by Eaga who also undertake the debt management advice/benefits “health check”. The customer benefits from a lower unit rate and lower consumption leading to a reduced bill, as well as a warmer home and knowing that the debt is being settled in a manageable way. Scottish Power benefits by reduced debt recovery costs and greater certainty of getting the debt repaid in a known timescale.

EBICo’s Equigas

EBICo Ltd is a non-profit distributing company whose directors have a Christian background and wish to develop an ethical tariff. The Equigas tariff provides a single unit price for all customers regardless of how they pay their bills, and has no standing charge. The unit charge in February was higher than most gas suppliers charge people who pay by direct debit, but is probably the cheapest option for people who use prepayment meters. Low users who pay quarterly will also find it one of the cheapest options. EBICo is hoping that direct debit customers will be prepared to give up a proportion of their benefit to enable a lower price to be charged to people who pay in other ways or are low users. Southern Electric Gas is supplying the gas for the Equigas tariff.

St Pancras Housing Association

In 1995 St Pancras Housing Association (SPH) replaced two old district heating boilers serving 95 flats in two blocks near Euston station with a new gas-fired CHP unit. SPH sells both heat and electricity to the tenants. Heat is paid for with the rent but tenants are billed individually for electricity consumption. Most of the electricity is supplied from the CHP unit with London Electricity meeting extra demand through a single supply to SPH. As well as reduced heating bills, the tenants have also seen a 25 per cent cut in their electricity charges as SPH is able to pass on the savings it makes in generation, distribution and transmission costs by using “on-site” generation. The tenants voted in a ballot for a tariff with no standing charges to maintain their incentive to minimise their electricity consumption.

Appendix C Licence Conditions Relating to Customer Safeguards

1. Gas:

Condition 10: Methods of payment of charges for gas

(1) Except where the licensee requires that the supply of gas be taken through a pre-payment meter, it shall afford to a domestic customer using gas for domestic purposes the opportunity to pay charges in respect of the supply of gas in a variety of ways including, in particular -

- (a) by cash at such places or to such persons as the licensee may reasonably determine;
- (b) by cheque, and
- (c) by postal order,

and if the licensee requests a deposit by way of security for the payment of charges as a condition of making a supply of gas available to the customer, but the customer is unwilling or unable to pay it, the licensee shall agree to his taking his supply of gas through a pre-payment meter if that is safe and practical.

(2) In the case of the supply of gas under a contract, otherwise than through a prepayment meter, the licensee shall afford to a domestic customer using gas for domestic purposes a reasonable choice of terms as to the frequency of payments in respect of the supply of gas including, in particular -

- (a) the making (in a reasonable manner specified by the licensee) of monthly payments of a predetermined amount to be applied in meeting charges for gas supplied as and when they become due, and
- (b) one of the following, namely -
 - (i) the settling quarterly of a quarterly bill for gas supplied;
 - (ii) the settling monthly of a monthly bill for gas supplied, and
 - (iii) the settling quarterly of such monthly bills unless, having regard to the special circumstances of a particular case, the Director permits otherwise.

Condition 16: Advice on efficient use of gas

The arrangements shall provide for the provision, at the request of any of the licensee's domestic customers, of advice on the efficient use of gas given or prepared by a suitably qualified person and, in particular, advice as respects -

- (a) the restriction of heat losses from existing buildings;

- (b) the selection of gas heating systems or controls for such systems for use in either existing or new buildings;
- (c) the operation of gas heating systems in either existing or new buildings which is best calculated to make an efficient use of gas;
- (d) the efficient use of gas supplied to a domestic customer but used for the purposes of trade or business;
- (e) organisations which may provide further advice, training or other services in connection with the efficient use of gas, and
- (f) sources of possible financial assistance in meeting the cost of works calculated to improve the efficient use of gas in existing dwellings.

Condition 17: Services for pensioners or disabled or chronically sick persons

- (1) The arrangements shall provide, in relation to any domestic customer of the licensee who is of pensionable age ("a pensioner"), or is a disabled or chronically sick person, on request and without charge -
 - (a) except in the case of a customer living with another person who is neither a pensioner nor a disabled or chronically sick person nor under 18 years of age, for the examination by a person possessing appropriate expertise at intervals of not less than 12 months of the safety of gas appliances and other gas fittings on the customer's side of the meter at his premises, other than a fitting for the annual inspection of which a landlord of the customer is responsible in pursuance of regulations made under the Health and Safety at Work etc. Act 1974;
 - (b) so far as is reasonably practicable and appropriate -
 - (i) for the provision of special controls or adaptors, from a range of such controls or adaptors, for prepayment meters owned by the licensee or the relevant transporter and for gas appliances;
 - (ii) for the repositioning, to meet the needs of the customer, occasioned by his physical condition arising from his age, disability or chronic sickness, of any gas meter owned by the licensee, and
 - (iii) for the transmission through the relevant shipper (or, if the holder of this licence is that shipper, direct) to the relevant transporter of any request by the customer for the relevant transporter to reposition any gas meter it owns to meet such needs and (except where the holder of this licence is the relevant shipper) for the relevant shipper being reimbursed by the licensee any payments made by it in respect of any reasonable expenses incurred by the relevant transporter in complying with the request);
 - (c) for affording to the customer special means by which he may confirm the identity or authority of one of the licensee's officers (within the meaning of section 48(1) of the Act) authorised for the purposes of any provision of

Schedule 2B to the Act or authorised by the licensee as mentioned in standard condition 25(1)(f);

- (d) for the provision of advice, given or prepared by a person possessing appropriate expertise, relating to the use of gas, gas appliances and other gas fittings;
- (e) for bills in respect of the supply of gas to the customer to be sent to a person who, for the time being, is nominated by him and is willing to be sent such bills, without prejudice, however, to the right of the licensee to send them to the customer as well where that appears appropriate to the licensee, and
- (f) where neither the customer nor any person living with him is able to read the gas meter and it is ordinarily read in accordance with arrangements made by the licensee, for the meter to be read once in each quarter and, without prejudice to standard condition 26(2), for the customer to be told what these readings are.

(2) The arrangements shall provide -

- (a) for the keeping by the licensee of a list of its domestic customers who are pensioners or disabled or chronically sick persons and who request to be included in the list;
- (b) for the list to contain appropriate information provided by the customers which facilitates the identification of his special needs;
- (c) for notifying its domestic customers once each calendar year that that list is kept and how those who are pensioners or disabled or chronically sick persons may apply for inclusion therein, and
- (d) for the licensee to secure that the relevant transporter is provided with the information in the list in an appropriate form and at appropriate intervals.

Condition 18: Facilities for blind and deaf persons

The arrangements shall provide for the provision, on request and free of charge, in relation to the licensee's domestic customers who, to the knowledge or reasonable belief of the licensee -

- (a) are blind or partially sighted, by telephone or other appropriate means -
 - (i) of the meter readings and charges in respect of the supply of gas as set out in any bill, and
 - (ii) of the arrangements for making enquiries or complaints about bills or the services provided by the licensee
- (b) are deaf or partially hearing, of facilities to assist them (if they have the equipment enabling them to take advantage thereof) when making enquiries or complaints about bills or the services provided by the licensee.

Condition 19: Steps to be taken where charges for gas are unpaid

- (1) The arrangements shall, in relation to any of the licensee's domestic customers who, through misfortune or inability to budget to meet bills for gas supplied on credit terms, incurs obligations to pay for gas so supplied for use for domestic purposes which he finds difficulty in discharging, provide for -
 - (a) distinguishing, so far as is reasonably practicable, such a customer from others in default;
 - (b) providing general information as to how such a customer might reduce his charges in the future by the more efficient use of gas;
 - (c) in relation to a domestic customer in whose case facilities have been made available for sums to be deducted from any social security benefit payable to him (on account of his liability to pay charges for gas supplied to him by the licensee), for the acceptance of such sums in discharge of any such liability;
 - (d) offering an arrangement for the customer to discharge his debt by instalments, and making such instalment arrangements taking into account information available to the licensee as to the customer's ability to pay (including any such information made available by other persons or organisations), and
 - (e) offering a prepayment meter where such a meter is safe and practical, including a prepayment meter calibrated so as to recover any debts in addition to the charges for gas as it is used, taking into account information available to the licensee as to the customer's ability to pay (including any such information made available by other persons or organisations).
- (2) In the case of a domestic customer to whom paragraph (1) applies, the licensee shall not cut off the supply of gas at such a customer's premises for non-payment of charges otherwise than following compliance by the licensee with the arrangements mentioned in that paragraph.

Condition 20: Pensioners not to have supply of gas cut off in winter

- (1) This condition shall apply in the case of any of the licensee's domestic customers who, to the knowledge or reasonable belief of the licensee -
 - (a) is of pensionable age and lives alone or with other persons all of whom are also of pensionable age or under 18 years of age;
 - (b) is supplied with gas which is used for domestic purposes, and
 - (c) is in default of his obligation to pay for gas so supplied through misfortune or inability to budget to meet bills for gas supplied on credit terms.
- (2) Notwithstanding that sub-paragraph (3) of paragraph 7 of Schedule 2B to the Act (including that sub-paragraph as extended by sub-paragraph (4) thereof) applies by virtue of sub-paragraph (1) of the said paragraph 7 (or would so apply but for the fact that the premises in question are secondary sub-deduct premises), and notwithstanding

the provisions of standard condition 7(2)(f), the licensee shall not under the said subparagraph (3) or (in the case of secondary sub-deduct premises) in exercise of any analogous right cut off the supply of gas to such a customer's premises during any winter period, that is to say, a period beginning with 1st October in any year and ending with 31st March in the next following year.

2. Electricity³³:

Condition 18. Code of practice on payment of bills and guidance for dealing with customers in difficulty

1. The Licensee shall, no later than 1 January 1998, prepare and submit to the Director for his approval a code of practice concerning the payment of electricity bills by its Domestic Customers, including appropriate guidance for the assistance of such customers who, through misfortune or inability to cope with electricity supplied on credit terms, may have difficulty in paying such bills.
2. The code of practice shall include procedures by which the Licensee can distinguish customers in difficulty (the "relevant customers") from others in default and can:
 - (a) provide general information as to how relevant customers might reduce their bills in the future by the more efficient use of electricity;
 - (b) where such a facility is available, accept in payment for electricity supplied sums which are deducted at source from social security benefits payable to relevant customers;
 - (c) detect failures by relevant customers to comply with arrangements entered into for paying by instalments charges for electricity supplied;
 - (d) make such arrangements so as to take into account the customers' ability to comply with them;
 - (e) ascertain with the assistance of other persons or organisations, the ability of customers to comply with such arrangements;
 - (f) provide for customers who have failed to comply with such arrangements, or procure for them the provision of, a prepayment meter (where safe and practicable to do so); and
 - (g) arrange for the calibration of any prepayment meter so provided so as to take into account the customers' ability to pay any of the charges due from them under such arrangements in addition to the other charges lawfully being recovered through the prepayment meter.
3. In formulating the procedures referred to at paragraph 2 the Licensee shall have particular regard:

³³ These licence conditions apply to Public Electricity Suppliers, and to second tier suppliers in respect of supply to designated customers (ie domestic customers and to customers whose annual consumption of electricity is under 12,000 kWh)

- (a) to the purpose of avoiding, in so far as is practicable, the disconnection of premises occupied by relevant customers otherwise than following compliance by the Licensee with such procedures; and
- (b) to the interests of relevant customers who are of pensionable age or disabled or chronically sick and to the purpose of avoiding, in so far as is practicable, the disconnection of premises occupied by such customers during the winter months of each year,

and the procedures shall be designed for the achievement of such purposes.

Condition 20. Provision of services for persons who are of pensionable age or disabled or chronically sick

1. The Licensee shall, no later than 1 January 1998, prepare and submit to the Director for his approval a code of practice detailing the special services the Licensee will make available for Domestic Customers who are of pensionable age or disabled or chronically sick.
2. The code of practice shall include arrangements by which the Licensee will where appropriate, in respect of its customers:
 - (a) provide where practicable special controls and adaptors for electrical appliances and meters (including prepayment meters) and reposition meters (and shall set out any charges to be made for the provision of such services);
 - (b) provide special means of identifying persons acting on behalf of the Licensee;
 - (c) give advice on the use of electricity;
 - (d) send bills in respect of the supply of electricity to a customer to any person who is willing to be sent such bills and is nominated by that customer (without prejudice, however, to the right of the Licensee to send such bills both to the customer and to the nominated person where that appears appropriate to the Licensee);
 - (e) make available (free of charge) to blind and partially sighted customers, by telephone or other appropriate means, information concerning the details of any bill relating to the supply of electricity to them and a facility for enquiring or complaining in respect of any such bill or any service provided by the Licensee; and
 - (f) make available (free of charge) to deaf and hearing impaired customers, being in possession of appropriate equipment, facilities to assist them in enquiring or complaining about any bill relating to the supply of electricity to them or any service provided by the Licensee.
3. The code of practice shall further include arrangements whereby the Licensee will:
 - (a) take reasonable steps to draw the attention of its customers to the existence of a register of customers who may be expected, by virtue of being of pensionable age or disabled or chronically sick, to require:

- (i) information and advice in respect of the matters set out at paragraph 2; or
 - (ii) advance notice of interruptions to the supply of electricity;
- (b) maintain such a register, comprising the relevant details of each customer who requests (or, in the case of a customer supplied by a private electricity supplier, whose supplier requests) his inclusion on it and:
- (i) give to those of its own customers so registered, in respect of the matters set out at paragraph 2; and
 - (ii) give to all customers so registered, in respect of interruptions to the supply of electricity,
such information and advice as may be appropriate and is of such nature as shall be set out in the code of practice.

Condition 22. Efficient use of electricity

1. The Licensee shall, no later than 1 January 1998, prepare and submit to the Director for his approval a code of practice setting out the ways in which the Licensee will make available to customers such guidance on the efficient use of electricity as will, in the opinion of the Licensee, enable them to make informed judgments on measures to improve the efficiency with which they use the electricity supplied to them. Such code of practice shall include, but shall not be limited to:
 - (a) the preparation and making available free of charge to any customer who requests it of a statement, in a form approved by the Director, setting out information and advice for the guidance of customers in the efficient use of electricity supplied to them;
 - (b) the making of arrangements for maintaining sources from which customers may obtain further information about the efficient use of electricity supplied to them, including the maintenance of a telephone information service; and
 - (c) the preparation and making available free of charge to any customer who requests it of a statement or statements of sources (to the extent that the Licensee is aware of the same) outside the Licensee's organisation from which customers may obtain additional information or assistance about measures to improve the efficiency with which they use the electricity supplied to them, such statement or statements to include basic information which is publicly available on financial assistance towards the costs of such measures available from Central or Local Government or through bodies in receipt of financial support from Government in connection with measures to promote the efficiency of energy use.

2. Where the Director (who may have regard to the need for economy, efficiency and effectiveness before giving directions under this paragraph) gives directions to do so, the Licensee shall:
 - (a) review and prepare a revision of the code of practice;
 - (b) take steps to bring to the attention of customers information on the efficient use of electricity supplied to them; and

- (c) send to each customer a copy of any information published by the Director pursuant to Section 48 of the Act

in such manner and at such times as will comply with those directions.

Condition 35: Contractual Terms

1. Where the Licensee offers to supply electricity to Domestic Premises under Designated Supply Contracts, it shall have available forms of Designated Supply Contract which provide for the payment of charges for electricity supplied to Domestic Premises:
 - (a) by prepayment through a prepayment meter;
 - (b) by different methods, including:
 - (i) by cash, at such places and to such persons as are reasonable in all the circumstances; and
 - (ii) by cheque, and
 - (c) at a reasonable range of different intervals, including:
 - (i) paying monthly a predetermined sum; and
 - (ii) paying quarterly in arrears
2. Before entering into any contract to supply electricity to Domestic Premises (other than through a prepayment meter) the Licensee shall inform the customer of and offer to enter into Designated Supply Contracts which comply with sub-paragraphs 1(b) and (c)