



Preventing

debt and
disconnection



Promoting choice and value for
all gas and electricity customers

Preventing debt and disconnection

One and a half million consumers are repaying debts to their fuel supplier. A joint priority for Ofgem and energywatch is a reduction in this number. During 2002, we have examined the main causes of fuel debt, and the good practices which fuel suppliers can adopt to prevent debt problems occurring. Consumer representatives and energy companies have been consulted. Taking account of their views, Ofgem and energywatch have invited suppliers to develop strategies designed to help consumers avoid running up debts, by the adoption of best practice.

In developing strategies, suppliers have been asked to focus on six key areas:

- 1. Minimising billing errors**
- 2. Using incoming calls to identify consumers in difficulty**
- 3. Using consumer records to target energy efficiency improvements**
- 4. Demonstrating flexibility in debt recovery**
- 5. Offering sustainable solutions to consumers in extreme hardship**
- 6. Helping consumers who are unable to manage their own affairs**

Under each of these six headings, energywatch and Ofgem have identified guidelines reflecting good practice. Suppliers have been asked to incorporate these guidelines into their strategies.

All fuel suppliers already have codes of practice that set out the services they provide to domestic consumers. These cover payment of bills and dealing with customers in difficulty; energy efficiency advice; use of prepayment meters; services for customers who are elderly, disabled or chronically sick; and services for customers who are blind or deaf. In some areas, the debt prevention guidelines reflect best practice in respect to interpretation and operation of existing code of practice obligations. In other areas, the debt prevention guidelines go beyond existing obligations and encourage suppliers to consider new and innovative approaches to help consumers avoid getting into debt.

The good practice guidelines are set out over the following pages.

1. Minimising billing errors

It is important to minimise the extent to which supplier error leads to debt or exacerbates payment problems.

Providing accurate bills

Some of the most frequently reported problems concern inaccurate bills or a lack of meter readings. The following examples of good practice would help prevent this:

- having a range of measures and performance targets designed to achieve a high proportion of bills based on actual (company or customer) readings
- always using actual (company or consumer own) readings, where provided, except where an anomaly with the pattern of past usage requires investigation
- leaving details of when meter readers will return or clear instructions for consumers to provide their own readings, when unable to gain access to read the meter
- clearly distinguishing estimated bills from bills based on actual readings and on subsequent estimates warning about the debt implications of not reading the meter
- ensuring that estimates are accurate by checking against consumption history and meter readings obtained outside the billing quarter
- obtaining an actual meter reading at least once a year in respect of consumers most at risk of debt
- providing a regular quarterly bill, unless otherwise specified.

Ensuring that customers switching supplier do not fall into debt

Some consumers have fallen into debt because of mistakes made on or around the time of transfer. The following good practice measures would help prevent this:

- obtaining meter readings on date of transfer
- always using actual consumption history or a forecast of usage based on appliances in the property to set regular payment amounts
- explaining, where account history is not available, that regular payment amounts are estimates and not based on actual usage
- ensuring the early dispatch of payment cards or direct debit mandates
- providing a bill based on actual meter readings within a maximum of 6 months.

Redress

In situations where a supplier has clearly been in error and the consumer is not culpable, good practice is to provide means of redress, which may be financial or otherwise. Redress may be appropriate when for example:

- no bill has been sent for over 6 months (unless agreed under the contract)
- no attempt has been made to read the meter for over 2 years
- an actual read (provided by either a meter reader or the customer) has been ignored (ie neither used nor investigated), or
- no attempt has been made to take into account a consumer's ability to pay.

Where supplier error leads to debt, types of redress may include:

- reducing debts or writing-off debts over a certain age
- not blocking such consumers if they want to change supplier
- accepting repayment over an extended period at least as long as the period over which the bill has accrued (not withstanding the obligation to take into account ability to pay).

Suppliers will consider whether redress is appropriate on a case by case basis, but generally it will be more important where consumers are on a low income or vulnerable or where difficulties have been exacerbated by the billing problem or the way it is handled.

2. Using incoming calls to identify consumers in difficulty

Incoming telephone calls provide a valuable opportunity for frontline staff to identify those consumers who might benefit from more specialist help with their fuel bills.

Training frontline staff

It is good practice for suppliers to train frontline staff to identify certain characteristics and when and how consumers can be referred for more specialist help. For example, training should enable them to:

- identify consumers with excessively high bills (e.g. over £500 per annum for gas or electricity)
- identify consumers who are struggling to pay
- have a basic awareness of the help available from the energy efficiency advice line and know when to refer consumers on
- provide basic energy saving tips and information (verbal and printed) on the availability of grants
- identify consumers in extreme difficulties and know where they can be referred for a wider approach to their problems.

'Flagging' consumer records

It is important that once identified, systems enable frontline staff to record characteristics for future reference. Good practice is to use flags on the front page of consumer records that identify, for example:

- high consumption
- a disability or other ailment
- a history of getting into difficulty
- benefit entitlement (where appropriate).

Being proactive in the provision of energy efficiency advice

Where a call-handler identifies a consumer who would benefit from energy efficiency assistance, good practice would be to pass details on to the specialist energy efficiency advice team for follow-up. To maximise take-up, it is good practice for advisers to vary methods and timing of contact to suit consumers' circumstances, by for example:

- following-up telephone calls with written information, or vice-versa, to ensure the consumer understands all the help that is available
- telephoning at evenings and weekends to increase the chance of contact
- offering incentives such as energy efficiency measures to encourage take-up of advice
- offering face-to-face advice, where feasible, or referring to Warm Front teams or local Energy Efficiency Advice Centres where this is more appropriate.

Ofgem has published a related document, "Good practice in the provision of energy efficiency advice to domestic consumers" which addresses this area in more detail.

3. Using consumer records to target energy efficiency improvements

It is also good practice to use consumer records to identify consumers who would benefit from energy efficiency advice. For example, the following circumstances could indicate that there is a need for such assistance:

- high consumption (over £500 per annum), especially if all electric
- an increase in consumption beyond certain threshold
- a debt over a certain amount
- payment by Fuel Direct or cash (prepayment or budget scheme)
- a history of struggling to pay or self-disconnection
- a sudden increase in usage
- the consumer lives in target area as defined by fuel poverty index or indices of social deprivation.

4. Demonstrating flexibility in debt recovery

A more flexible approach to debt management should enable suppliers to reduce the number of disconnections by increasing the likelihood of contact and ensuring that arrangements suit a consumer's circumstances.

Recovery process

When recovering debt, it is good practice to:

- segment consumers and vary techniques and timescales depending on payment history and circumstances
- attempt to speak to consumers with a history of difficulty early in the recovery process
- visit consumers free of charge at least once before disconnection visit
- train staff visiting consumers to identify and assist consumers in difficulty
- ensure that correspondence sent after the red reminder clearly informs consumers about:
 - the payment of bills code of practice
 - payment options (including Fuel Direct) and difference in cost
 - any charges associated with debt recovery process
 - facilities for helping consumers who do not speak English.

Encouraging contact

It is important that consumers are encouraged to contact suppliers when they get into difficulty and that they are not pressured into paying more than they can afford. It is therefore good practice for suppliers to:

- allow members of staff who negotiate repayments with consumers in difficulty flexibility to agree amounts based on what consumers can afford and payment dates that suit consumers' circumstances
- ask consumers in difficulty what they can afford and whether they are on benefits, inform them about all available payment options (including Fuel Direct where eligible) and, where appropriate, explain that other debts can be taken into account when considering the size of repayments
- set repayment at no higher than the Fuel Direct level (currently £2.70 a week) for consumers on benefits and other low-income consumers with a high usage
- encourage contact by the consumer if their circumstances change
- have a well publicised freephone number, targets for answering calls within set times and an efficient system of prompts that direct consumers to an appropriately trained team.

5. Offering sustainable solutions to consumers in extreme hardship

All suppliers are likely to have a small number of consumers in extreme difficulties who would benefit from a wider approach to their problems. It is therefore good practice for suppliers to:

- train specialist members of staff to help consumers with wider financial problems by providing details of other organisations that can help and offering to contact the organisation on the consumer's behalf, where appropriate
- have a dedicated manager to handle links with advice agencies and ensure that relevant members of staff have access to a directory of advice agencies (e.g. www.justask.org.uk/directory)
- provide, either in-house or in partnership with others, a package of assistance, designed to deliver sustainable solutions for consumers in severe difficulties. Such packages may include:
 - independent money advice
 - energy efficiency advice and information about grants and measures available
 - free benefits health-check (provided by trained welfare rights advisors)
 - one-off reduction in the debt
 - consideration of the consumer's overall debt situation before agreeing a payment arrangement.

6. Helping consumers who are unable to manage their own affairs

Suppliers are likely to have a small number of consumers who may be at risk of getting into debt due to an inability to manage their own affairs. In some cases, but not all, such consumers will be eligible for the Priority Service Register (PSR), by virtue of their age or state of health. It is therefore good practice for suppliers to:

- ensure that all frontline staff are aware of the PSR and the services available to eligible consumers
- encourage frontline staff to inform eligible consumers about the PSR and its benefits
- collect and record sufficient detail to profile PSR consumers
- flag the front page of consumer records to show which consumers are on the PSR, their circumstances, and the services that may be relevant
- train frontline staff to identify eligible consumers who are unable to manage their affairs
- have arrangements for helping such consumers to avoid the build up of debt (including regular meter readings)
- offer Fuel Direct to such consumers who are in debt and eligible.

Monitoring performance

energywatch and Ofgem are determined that suppliers' strategies bring benefits to consumers. We have therefore identified six indicators and six key deliverables, which we will focus on when reviewing progress.

Indicators

The following statistical indicators reflect the objectives of the project. energywatch and Ofgem recognise that these should not be looked at in isolation. However, when considered together these should demonstrate whether the guidelines are having a positive effect.

■ **Number of consumers repaying a debt**

The purpose of this work is to help consumers avoid getting into debt. There are 1.3m gas consumers and 1m electricity consumers repaying a debt. A reduction in these figures would be a positive sign of progress.

■ **Percentage of consumers in debt owing more than £300**

Data collected by Ofgem suggests that 15 per cent of gas and electricity consumers in debt owe more than £300. The guidelines are designed to catch debt problems early. A reduction in these percentages would therefore be a positive sign.

■ **Numbers of consumers disconnected for non-payment of debt**

It is hoped that fewer consumers in debt and a more flexible approach towards those in debt should result in fewer disconnections. A reduction in the number of disconnections would therefore be a sign of progress.

■ **Number of prepayment meters installed to recover debt**

There are currently 950,000 gas consumers and 580,000 electricity consumers repaying debt through a prepayment meter. Although these figures may increase as suppliers make greater efforts to avoid disconnecting consumers, the rate of increase should not be greater than the corresponding decrease in disconnections.

■ **Number of consumers provided with energy efficiency advice**

Adoption of good practice should lead to an increase in the number of consumers provided with specialist advice. In the last 12 months 140,000 consumers received such advice.

■ **Number of consumers in debt provided with energy efficiency information**

In the last 12 months 290,000 consumers in debt received information on energy efficiency. If we are to see an increase in consumers benefiting from specialist help, suppliers will need to raise awareness of consumers further.

Deliverables

In addition to the indicators, energywatch and Ofgem have identified one key deliverable under each of the six areas. Delivery in these areas will demonstrate commitment to debt prevention and bring tangible benefits. Therefore, in reviewing progress, energywatch and Ofgem will focus on the following:

- the measures and performance indicators in place to minimise billing errors, achieve a high proportion of bills based on actual readings and ensure that new consumers receive a bill based on an actual reading within 6 months
- the training of call handlers and the use of 'flags' on consumer records, to help frontline staff identify consumers who would benefit from energy efficiency advice or other assistance (including use of the Priority Service Register or a wider approach to their problem)
- plans for using consumption, payment and other data to proactively target consumers with energy efficiency advice and measures

- measures in place to ensure flexibility in debt recovery, in particular that staff always check whether the consumer can afford the amount and only collect minimum amounts (no more than £2.70 a week) towards the debt from consumers in receipt of income related benefits or from other low-income consumers with high bills
- how links have been strengthened with consumer agencies and any arrangements, in-house or in partnership with others (such as an independent Trust Fund), for offering a package of measures that provide sustainable solutions to consumers in hardship
- the systems in place, using the Priority Service Register and other means, to identify and provide additional assistance to those consumers unable to manage their affairs.

Ofgem and energywatch will review progress regularly and report on this annually. Both organisations will seek to publicise good practice and successful outcomes.



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