



*Promoting choice and
value for all customers*

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Dear Colleague,

Token PPM customers and debt build up

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

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

This letter provides an update from December 2006 and highlights recent action by the suppliers to tackle this problem.

Update on progress

In terms of the actions set out in the December 2006 statement, our consultation on plans for licence changes closed on 2 March and we will set out our proposals going forward in April 2007.

Taking forward our commitment to monitor suppliers' progress we are collecting monthly progress reports from suppliers on their activities. Compared to the figures we set out in December 2006, the returns submitted for January 2007 show:

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http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/18177_218_06.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/socialactionplan

- 150,000 decrease in the number of token PPMs accruing debt – falling to 256,000 from 409,000 in December.
- the removal of around 90,000² token PPMs – with the remaining stock for the three suppliers standing at 672,000
- 86,000 recalibrations carried out in January 2006
- additional communications with customers by Scottish Power and Powergen. npower have communicated with some of their customers but have been slower to respond and we have raised this with them
- action to write off debts for customers.

Progress to date is encouraging although clearly there is more to be done and we expect that suppliers will have made even further progress by the time of our next report.

Scottish Power, npower and Powergen committed to this package in December 2006. Our message to customers and those who represent them is to take the companies at their word: contact them if your meter needs to be recalibrated, and put your case to them if you are facing hardship as a result of debt build up or feel that you have been treated unfairly.

Falling energy prices

Some suppliers adopt a policy of not charging increases in energy prices until the meter is recalibrated (SSE, EDF Energy and as from December 2006 British Gas). We recognise this good practice but acknowledged in our best practice statement that there may be different approaches, based on timely recalibration, provided always that the supplier treats the customer fairly. This focus on timely recalibration is important in our view both at a time of rising prices, to prevent debt from building up, but also as prices begin to fall, as they have over the past few weeks, so that customers can benefit from reduced prices as soon as possible.

Reducing token PPM stocks

A key area for action for suppliers is the replacement of token PPMs with 'smarter' ones which do not require visits to be recalibrated. Our best practice statement recognised that suppliers had replacement programmes in place and urged them to do all that they could to accelerate their plans. Scottish Power, Powergen and npower gave us important commitments in this area.

We will continue to monitor recalibration activity and the 'switch out' of token meters, and will report on these activities across all six of the main suppliers going forward.

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

Yours sincerely

Sarah Harrison
Managing Director, Corporate Affairs

² Includes some February activity – see footnote 3

PROGRESS REPORT ON TOKEN PPMs – JANUARY 2007*How are suppliers performing?*

Scottish Power, Powergen and npower have all provided us with information on their token PPM activity in January 2007.

To date we have focussed our attention on those suppliers whose customers might be at risk of building up debts due to delays in recalibration. However, speedy recalibration is important in all instances to ensure that customers are paying the right price - in particular, as prices are now starting to fall, to ensure customers benefit as quickly as possible from these reductions. Going forward we therefore intend to collect monthly information from all six of the main suppliers on their recalibration activities.

Replacement activity is clearly a key area of work – so that these issues do not arise in the future and we are collecting monthly information from suppliers on the number of token PPMs they have in place so that we can monitor progress in removing these meters. We expect that overall numbers of token PPMs will fall dramatically over the coming months as suppliers ramp up their replacement activities. Powergen in particular aim to have removed their entire stock of token PPMs by the end of the year. British Gas' programme will also be substantially complete by that time.

In the figures submitted by suppliers for January 2007 we have seen a considerable reduction in the number of token PPMs for Scottish Power, Powergen and npower compared to the figures that were published back in December. While a part of each suppliers' reduction is likely to relate to customer churn the majority will be the result of direct replacement activity. Scottish Power had over 69,329 fewer token PPMs, with Powergen also making some good progress with a reduction of over 21,668³. npower's figures remain unchanged from last year – although we expect to see these numbers start to fall considerably as their own replacement programme gets underway. Going forward we will also be collecting information from EDF Energy, British Gas and Scottish and Southern Energy so that we can monitor replacement activity more widely.

Looking at the areas we highlighted in December 2006 we can see that some clear progress has been made by suppliers in their figures submitted for January 2007 although more remains to be done.

customer communication: a key area for action was improving communications to ensure that customers understand that they are running up debts and can take action to tackle this by calling for an appointment.

Powergen and Scottish Power have contacted all affected token PPM customers since the start of the year and have provided us with detailed information on their communication programmes which seem to be yielding some positive results. We expect to see these activities yield further results over the coming months and will be talking with suppliers directly about how activities to date can be built upon. npower have now begun to contact their customers – explaining about token PPM debt accrual and estimating the

³ Due to data issues the January returns submitted by Scottish Power and Powergen included reductions in token PPMs in the early part of February (up to 11 February for Scottish Power and up to 15 February for Powergen). Going forward month end data will be available.

likely level of debt the customer may have built up since recalibration. We recognise that it took npower some time to collect this information but now expect to see their communication efforts ramp up significantly and will be raising this issue with them if we do not see significant improvements over February and March.

recalibration activity: speedy recalibration is a fundamental element of these arrangements and we will be watching closely to see how suppliers are improving their performance – in particular recognising that this first month began shortly after our statement was published and that it may have taken some time for planned improvements to be implemented.

Scottish Power recalibrated over 56,000 meters in January 2007 –reflecting the fact that they already had a proactive approach to recalibration. Powergen and npower each recalibrated around 15,000 token PPMs in January 2007 – while this is a considerable number they both have large numbers of customers accruing debts and we expect to see increased activity over the coming months to show that they are committed to tackling this problem. However in addition to activities in January, npower carried out a large number of recalibrations at the end of 2006, such that their overall figure of token PPMs accruing debt is now significantly below the levels we published in December 2006 - falling from 150,000 (figure listed in our December 2006 document) to 87,000 in the returns for January. We are encouraged by this considerable reduction and will be looking for further progress over the coming months.

debt write off: given that there have been delays in recalibration over the past few years and some significant debts have arisen, it is very important that suppliers handle debt issues sensitively. We encouraged suppliers to consider debt write off in cases of genuine hardship, to write off all very old debts and to be sensitive in setting debt repayment levels.

Scottish Power, Powergen and npower are writing off all debts which have been accruing for more than 2 years, subject to reasonable access.

In addition there is strong evidence that suppliers are taking individual action in specific cases as well. British Gas agreed with energywatch that they would write off a number of token PPM debts as a goodwill gesture. Scottish Power and Powergen have both provided information on the level of token PPM debt that they have written off in January 2007. The numbers are not insignificant and suggest that efforts are being made to help customers who need assistance. Furthermore Powergen will not charge customers any additional debts which accrue beyond the end of March 2007, subject to the customer making reasonable endeavours to provide access. In the month of January npower did not write off any token PPM debts – this is likely to be due in part to a decision not to load any debt onto meters until their replacement programme has been finalised - to avoid revisiting premises to load debt which will then be visited shortly after for replacement. We will be monitoring their progress closely. It is important that suppliers remain proactive in identifying cases of genuine hardship and writing off debt and we will continue to monitor progress in this area over the coming months to ensure that appropriate action is taken.

In addition to writing off debts we called on suppliers to handle the repayment of debt sensitively. All the suppliers have provided information on their repayment rates which show that action is being taken to try and set reasonable repayment rates for customers. The average repayment rate set for customer debt for all token PPMs was between £2 and £4.50 per week. These average figures cover all token PPM customers – including

those who can afford to (and wish to) pay back their debts more quickly. The overall spread of repayments is wide – with some customers repaying around £1 per week.

debt blocking: Scottish Power, Powergen and npower have all agreed not to block customer transfer requests on the grounds of debt where that debt has built up due to delayed recalibration and confirmed that no such blocks took place in January 2007.

December 2006 statement⁴.

December 2006	Number of token PPMs in place – November 2006	Number of token PPMs accruing debt – November 2006
Scottish Power	340,000	94,000
Powergen	213,000	165,000
npower	210,000	150,000
TOTAL	763,000	409,000

January 2007 returns

January 2007	Number of token PPMs in place	Number of recalibrations within month	Number of token PPMs accruing debt
Scottish Power	270,670	56,660 ⁵	59,663
Powergen	191,330	14,245	109,916
npower	210,000	15,500	87,000
TOTAL	672,000	86,405	256,579

⁴ Suppliers in some instances are unable to provide up to date information relating to token PPMs in areas outside of their incumbent areas – due to issues with the data transfer with metering agents. We are urging suppliers to address these issues now so that full information is available although we note that the vast majority of suppliers' token PPMs are in their incumbent areas. In such cases the figures quoted relate to the suppliers token PPMs which are located within their old incumbent areas.

⁵ These figures include recalibration of token PPMs for reasons other than a price change – for example to adjust tariffs once a past debt has been repaid – as such these figures do not correlate exactly with the remaining number of customers accruing debts on their token PPMs.