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24 May 2007

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

Ofgem published an update for January on 21 March 2007 highlighting recent action by the suppliers to tackle this problem. This letter provides an **update for February and March 2007**.

Update on progress

The monthly returns received from the suppliers show that the number of token PPMs accruing debt is under **149,000** – down from **409,000** when Ofgem first took action in December 2006, and down from **256,000** when we last reported in March.

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

The returns submitted for February and March 2007 show:

- the removal of over 61,000 token PPMs – with the remaining stock for the three suppliers (Scottish Power, npower and Powergen) standing at around 610,000
- 80,259 recalibrations carried out by the three suppliers in March 2007.

Scottish Power

The most recent figures show Scottish Power's progress in removing token PPMs and in recalibrating meters which are accruing debt has slowed down. Ofgem was very concerned about this and wrote to Scottish Power² and Iberdrola³ – Scottish Power's new parent company following the recent takeover – seeking a more detailed explanation.

A copy of Alistair Buchanan's letters to Scottish Power⁴ and José Luis del Valle's response is attached.

Scottish Power has highlighted the problems it has encountered with gaining access to PPM premises, and has been proactive in undertaking a pilot exercise to target specific customers by telephone and letter by offering a payment to incentivise the installation of a key meter. Scottish Power has confirmed that the number of token PPMs yet to be recalibrated has fallen to fewer than 38,000, and that it has made in excess of 220,000 visits to these remaining customers since their last price increase in July 2006.

As a result of Ofgem's letter, Scottish Power has committed to a series of further initiatives to target the outstanding token PPMs that are yet to be recalibrated:

- A doubling of effort to gain access to the 38,000 customers, for example involving extensive weekend working.
- Focusing its "switch out" programme to new key meters on the 38,000 householders
- A further step up in customer communication with targeted correspondence and, from June, follow up telephone calls to arrange appointments for recalibration.

Scottish Power's recent price reductions bring its PPM tariffs below its standard credit tariff. Price cuts take effect from 15 June and Scottish Power's PPM token customers will not have to wait for meters to be recalibrated.

Npower and Powergen

The most recent figures also show that npower and Powergen are continuing to make progress in reducing the number of token PPMs accruing debt – reductions of 83,000 and 92,000 respectively since December 2006 - and they both have arrangements in place to

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Token%20PPMs%20and%20debt%20-%20Open%20Letter%20to%20Scottish%20Power.pdf>

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<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Token%20PPMs%20and%20debt%20-%20Open%20Letter%20to%20Iberdrola.pdf>

⁴ <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Pages/Publications.aspx>

limit the overall level of debt any customers will pay. This is in addition to the commitments that all suppliers have given Ofgem that they will write off debt in cases of genuine hardship and at all times treat these customers fairly.

These are important commitments which consumer organisations can and, as we know from feedback, have relied on when pursuing individual cases on a consumers' behalf.

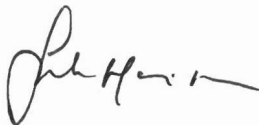
Npower has followed a different approach to the other two suppliers and are not loading any debt onto meters until they have carried out an individual assessment of the customer's position. To date, npower has processed over 2,000 accounts, writing off a total of £170,000 averaging £49 per customer. Npower will be writing to customers again shortly to advise them of the debt they have accrued.

"Switch out" of token PPMs

In our update report for January, we confirmed that we will continue to monitor recalibration activity and the "switch out" of token meters by all six of the main suppliers. Ofgem can confirm that suppliers have stepped up their programmes for replacing token meters and the period in which they are aiming to have replaced all meters varies from the end of this year to the end of 2009.

A detailed summary of the progress by suppliers for February and March 2007 is attached to this letter. We will continue to monitor and report suppliers' progress against their commitments.

Yours sincerely



Sarah Harrison
Managing Director, Corporate Affairs

PROGRESS REPORT ON TOKEN PPMs – February/March 2007February 2007 returns

February 2007	Number of token PPMs in place	Number of recalibrations within month	Number of token PPMs accruing debt
Scottish Power	265,600	56,660 ⁵	57,252
Powergen	182,770	13,616	91,229
npower	210,000 ⁶	39,000 ⁷	48,000
TOTAL	658,370	109,276	196,481

March 2007 returns

March 2007	Number of token PPMs in place	Number of recalibrations within month	Number of token PPMs accruing debt	
Scottish Power	234,820 ⁸	53,387 ⁹	42,735 ¹⁰	37,962 ¹¹
Powergen	165,732	14,872	74,903	
npower	210,000 ¹²	12,000	36,000	
TOTAL	610,552	80,259	153,638	148,865

⁵ Figure as at 23 Feb 2007 – includes recalibrations for Jan and Feb.

⁶ Npower has confirmed the transfer of data to new database will be completed by the end of May 2007.

⁷ This figure includes 10,000 recalibrations that occurred prior to February 2007 but which had been excluded from previous reports.

⁸ Number of token PPMs at premise level.

⁹ Covers recalibrations from 24 February and includes all recalibrations (not just those relating to debt accrual)

¹⁰ Number of token PPMs at premise level - including vacant sites.

¹¹ Number of token PPMs at premise level – excluding vacant sites.

¹² See footnote 5.



ScottishPower

José Luis del Valle
Chief Executive

Your ref

Our ref

Date

11th May 2007

Contact/Extension

Mr Alistair Buchanan
Chief Executive
Ofgem
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Thank you for your letters of 23rd April to my predecessor, Philip Bowman, and to the Chairman and CEO of Iberdrola, Ignacio Galán. I am replying as the new Chief Executive of ScottishPower.

Like you, I look forward to a professional and constructive working relationship and I share the importance you attach to transparency and clarity. Our forthcoming meeting will be a valuable start to that process.

You asked about recalibration of electricity token prepayment meters following previous price increases. I recognise the importance of pursuing this rapidly, not only to minimise debt accrual but also to provide opportunities to install new key meters which give better customer service and avoid the need for manual recalibration in the future. I hope you will find useful the following update on ScottishPower's progress.

ScottishPower's last price increase took effect on 10th July 2006. In the ten months that have elapsed since then, ScottishPower has recalibrated more than 262,000 token prepayment meters, and the number of meters yet to be recalibrated has fallen to fewer than 38,000. ScottishPower staff have made in excess of 220,000 visits to these remaining customers in an attempt to recalibrate their meters.

In January, ScottishPower wrote to customers who had yet to have their meters recalibrated in order to encourage them to make appointments to do so. This exercise was useful in raising the profile of the issue with our customers, and it has helped to reduce the number of customers who currently accrue debt.

From 15th June, ScottishPower will be the only GB energy supplier to have prepayment prices for both gas and electricity that are cheaper than standard quarterly payment prices. Given the higher proportion of vulnerable customers choosing to use prepayment meters as a payment option, I hope that this initiative will be seen as a welcome step in reducing consumer debt. Our prepayment customers will accrue the benefit of this reduction immediately, as it will be effective for all customers from 15th June and not delayed until recalibration.

I have now asked ScottishPower's Energy Retail business to devise a series of further initiatives to tackle specifically the 38,000 prepayment meters that are yet to be recalibrated. I believe these initiatives demonstrate our commitment and dedication to resolving this issue.



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- **Additional field activity.** Having now installed more than 120,000 new key meters, ScottishPower is reprioritising our key meter programme to focus all resources on the 38,000 customers still accruing debt. To support this initiative and gain access to properties, we will be introducing extensive weekend working and significant targeted staff incentives.

In parallel with this increase in activity, regular meter reading and recalibration work will continue as normal and we will attempt to access token prepayment meter properties every three months via the standard process. Indeed, we will introduce additional customer visits to undertake this activity, the net effect of which will be a doubling of effort to gain access to these 38,000 customers. By the end of July, I expect that we will have visited these customers close to 300,000 times since the 10th July 2006 price change.

- **Additional customer communications.** From 9th May, we are writing a further letter to all customers who still require meter recalibration, requesting that they contact us for an appointment. Our price change letters, to be dispatched in early June, will reinforce the need for meter recalibration. Following these two letters we will have sent some 100,000 letters to these customers.

If these letters do not elicit a response, we intend from the beginning of June to start calling all customers where we hold telephone contact details to arrange appointments for meter recalibration.

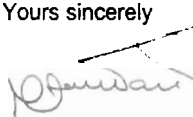
- **Use of warrants.** While considered a last resort, we are starting to obtain warrants of entry to assist in gaining access to properties where our efforts have failed and meters still need to be recalibrated. On such occasions, installation of a new key meter will also occur simultaneously.

The levels of effort and investment being undertaken through these initiatives demonstrate ScottishPower's continued commitment to addressing prepayment meter recalibration. We remain determined to phase out token meters and replace them with key meters over the next two years.

We will continue to report monthly progress to Ofgem, and will arrange to give your colleagues an early update on progress with our enhanced activities. In the meantime, as your letters were published via the Ofgem website, I should be grateful if you would make this response public in the same manner.

Thank you once again for writing. Please do not hesitate to contact me if I can be of further assistance.

Yours sincerely



José Luis del Valle