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Dear Sean,

### Direct Debit Arrangements

We have read with interest Ofgem's report following your detailed review of suppliers' direct debit arrangements. Please find below RWE npower's views on your findings and proposals.

We welcome the fact that the report concluded that the allegations that suppliers were making unjustified increases to direct debit payment amounts, are unfounded. It is important consumers can be reassured that there is no systematic problem, such that they can be confident in choosing to pay by direct debit and enjoy the benefits.

The report also indicated that npower's direct debit processes are robust and reasonable in terms of the calculation of payment amounts and our credit refund policy. We welcome Ofgem's views on best practice, with the report recognising that npower already meets several of these requirements. For example:

- We provide the customer with a full breakdown of the payment amount at reassessment;
- We provide customers with a clear prompt to provide meter readings;
- We offer flexible debt repayment options; and
- Our annual auto-refund threshold of £60 is significantly lower than the general level across the industry.

I have set out our views on each of the specific recommendations in Appendix 1 to this letter, which also updates you on a number of further improvements. As you are aware, we have already committed to further improve existing communications and generic information we make available to our customers regarding our direct debit arrangements. We are also making further efforts to emphasise the need for meter readings to enable a credit refund at annual review. I attach a recently introduced leaflet as an example of our work in this area, which is also available on our website.

In light of the above, we are disappointed and concerned with Ofgem's apparent conclusion that a licence condition is required as soon as practical. Whilst we

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appreciate the level of political and media scrutiny, we believe that in the circumstances the introduction of formal regulation into this area would be a premature and disproportionate step. The primary allegation against suppliers has been proven to be unfounded. The report also notes that prior to late 2008, there had been no history of major problems or complaints relating to direct debits. We note that Ofgem remains subject to a duty to have regard to the principles of better regulation (e.g. proportionate and targeted only at cases in which action is needed).

We also note the potential duplication with certain remedies being proposed under Ofgem's Energy Supply Probe, in relation to the use and provision of consumption information (e.g. quotations based, where possible, on individual consumption information).

We are surprised at the level of concern regarding the ability of suppliers to deliver improvements through self-regulation. Over recent years, suppliers have developed a proven track record of delivering a range of initiatives in response to emerging issues. Service improvements and significant falls in complaint levels have been delivered in a number of areas, for example; the Customer Transfer Programme, the Energysure Sales Code, ERA Billing Code, Energy Ombudsman. The Codes are underpinned by rigorous, independent annual audit.

The fact that some suppliers have been found to be better than others in certain respects, is not to be unexpected in a competitive market. However, this review provides an opportunity to baseline best practice and we believe that suppliers should be given the opportunity to take this forward in the first instance, having already acknowledged that communications could be improved. RWE npower supports the Energy Retail Association's Commitment on Direct Debit Arrangements, which is being reviewed in the light of the report. Nevertheless, it will be important to retain scope for suppliers to differentiate in the market and maintain a degree of choice (e.g. specific reassessment frequencies or refund policies).

We believe that a proportionate response would be for the ERA and Ofgem to review matters at the end of calendar year 2009. Notwithstanding this, our views on the specific questions raised in the report are provided in Appendix 2.

I trust the above is helpful in taking matters forward and would be happy to discuss any particular point further.

Yours sincerely,

By post & email

**Paul Finch**  
**Economic Regulation**

## **APPENDIX 1 – RWE npower’s position regarding Ofgem’s view of best practice**

***Frequency of reassessments – We urge all suppliers to look at how they can ensure that direct debit payments are based on the most up to date information, are flexible, and are reviewed frequently, and that significant price changes are reflected in payment levels as quickly as possible to avoid significant build ups of credit / debit and consequent large swings in repayment rates.***

npower is already proactive in reassessing direct debit payments twice a year, exceeding the minimum annual requirement under the ERA’s Billing Code. As the report indicates, we will also automatically recalculate a reassessment upon timely receipt of a customer own reading. We also ask the customer to provide a reading if they contact us to query a reassessment based on an estimated reading.

We are considering the scope for future system capability to conduct more rapid reassessments following price changes.

***Flexibility on debt rollover - In terms of best practice, suppliers should aim to have systems that are flexible and can accommodate different periods over which debts are recovered. We urge suppliers to develop their systems to deal flexibly with debt on customers' accounts.***

The report recognises that npower already applies best practice, by giving the customer a choice of clearing the balance (either in full or part) or spreading the amount going forwards. Our customer service staff will also offer alternative debt repayment periods on customer contact, taking into account the customer’s ability to pay.

We are also considering other options for providing the customer with further flexibility around the management of debt and direct debit payments.

***Meter readings - Given the potential effect of estimates on the credit/debit position of customers, we urge all suppliers to look at what more they can do to encourage meter readings by customers to ensure that direct debits are based on the best available information. We also encourage customers to make sure their supplier has an up to date meter reading.***

The report recognises that npower already applies best practice by providing clear prompts to provide a reading on bills and other communications. npower also operates a free-phone 24 hour automated meter reading telephone line and customers can also submit meter readings via our website.

Nevertheless, we are making additional efforts to promote the importance of customers providing us with meter readings. For example, see lozenge in attached leaflet which emphasises the importance for billing and refund purposes.

***New customers - In the meantime, we urge suppliers to ensure that they are using the best information available to set direct debits at an appropriate level for new customers. Examples of good practice in this area are where suppliers look to use information on the size of property, number of radiators, etc to help estimate future usage in the absence of reliable information on past usage. We***

***also urge new customers to provide accurate meter readings and information on past usage and suppliers to make it easy for customers to provide this information to them.***

We always endeavour to base direct debit payments on the best available information. We seek to discuss past usage with prospective customers and where this is not available, have recently introduced a template as a guide for new customers, incorporating typical payments based on property and occupancy factors.

We note that Ofgem's Supply Probe remedies include a proposal to ensure quotations are based, where possible, on individual consumption information. This would apply to all payments methods, negating the need for specific regulation in relation to direct debit arrangements and thereby avoid duplication.

***Individual explanations of the basis of reassessments - In our view, this level of individual information is essential to enable customers to understand properly the basis of the calculation and to determine whether the payments being demanded are reasonable.***

The report recognises that npower already applies best practice by providing a full breakdown of how the payment has been calculated.

Again, we note that Ofgem's Supply Probe is proposing the provision of additional information to customers regarding their consumption, on which direct debit payments are based. We would also caution against 'standardisation' in a competitive market.

***Clear explanations of how direct debit works - In our view, this generic explanation of direct debits should be made available to customers when they first sign up to direct debit and whenever their payments are changed. It should also be available on the supplier's website. We would urge all suppliers to look at how they can provide clearer explanations of the way that direct debit works.***

Whilst we already make information available to customers regarding the operation and benefits of our direct debit arrangements, we have committed to improve the quality of such generic information. An early example of this is the attached leaflet, but other work is progressing. For example: developing literature which could include an explanation and worked example of how price changes and reassessments interact; refreshing our existing communications to make it clearer how direct debit operates; better signposting and updating our website pages and FAQs.

***Willingness to enter dialogue - We expect suppliers to make clear on their communications that if customers are concerned about the level of their payments or their circumstances have changed then they should contact their supplier.***

Our advisors are always willing to discuss payment amounts with our customers, taking into account ability to pay, whilst ensuring that payments are sufficient to cover ongoing usage. We are reviewing our communications to see whether appropriate improvements can be made.

There is a balance to be struck in terms of managing the volume of customer contact and the materiality of any change in circumstances. Ordinarily, regular reassessments

and meter readings will help feed into the accuracy of payment calculations and should continue to be the primary focus.

***Informed customer service staff - We urge all suppliers to ensure that customer service staff have access to the information necessary to enable them to explain clearly to customers the basis of their direct debit payment and the implications of any changes. Suppliers should be willing to discuss changes to direct debit rates but reductions should only be made where the customer has had the implications clearly explained to them. All such communications should be followed up in writing.***

Our advisors are trained to understand the principles of our direct debit scheme, to facilitate informed discussions regarding payment levels, credits and refunds. The basis of direct debit payments will be visible to the advisor, via the detailed breakdown we provide to the customer on reassessment and consumption/tariff information held on our billing system.

We already write to the customer on change of payment date / amount, consistent with the Direct Debit Guarantee. We plan to amend the wording in this letter to highlight the importance of payments covering energy usage and avoiding the build up of debt. Clearly, it would be impractical and unnecessary to write to a customer after every discussion regarding their direct debit payment amount. Calls are recorded and account notes maintained.

***Refund of credits – We expect suppliers to look carefully at their refund policies to ensure credits are not being unreasonably withheld and that the grounds on which refunds will be made are explained clearly to customers.***

The report confirms that npower has the second lowest auto-refund threshold at £60. Lesser amounts are available on request, so customers have the choice of a refund or rolling the balance forward to reduce their payments. Our advisors are trained to discuss the implications of debt and payment levels, should refunds be requested at specific points during the annual cycle.

Whilst we already communicate our approach to refunds, we are reviewing our literature and information with a view to improving clarity in this area (see attached leaflet). Again, there should be scope for differentiation in the market and stakeholders should be comfortable with this in the knowledge that suppliers were found not to be manipulating direct debit payments to boost their cash position.

## **APPENDIX 2 – RWE npower’s response to specific questions.**

### **Chapter 2 questions**

#### **1 Do you agree with our analysis of the issues?**

Broadly speaking, yes, as the analysis confirms our belief that our direct debit policy and processes operate in the proper manner to help our customers manage their energy bills.

#### **2 Do you agree with the elements of best practice we have identified (described Chapter 2, summarised Chapter 3)?**

Broadly speaking, yes, given that we already adhere to a number of them and are making and reviewing the scope for further improvements. Nevertheless, it will be important to retain scope for suppliers to differentiate in the market.

#### **3. Are there any other elements of best practice you think we should consider?**

Not at this time, although we keep our processes under review.

### **Chapter 3 questions**

#### **1 Is a licence condition needed in this area? Please give reasons**

No, for the reasons stated in the covering letter, we believe that this would be a premature and disproportionate response.

#### **2 Do you consider that suppliers could deliver the improvements we have identified through self-regulation? Please give reasons**

Yes, given the industry’s proven track record and commitment to address emerging issues and deliver improvements through self-regulatory initiatives.

### **Chapter 4 questions**

#### **1 Which of the options A, B, or C do you consider would be the better approach? Are there any other models we should consider?**

Whilst we disagree in principle with the need for a licence condition, Option A would focus on the issue highlighted by Ofgem as being at the heart of the matter i.e. communication of changes to direct debit payments. Notwithstanding the valid role for self-regulation, Option A would be more in keeping with the principles of better regulation.

Option B would go beyond what the report has concluded needs to be addressed, in that there are no systematic problems or errors with the calculation of payment amounts. As recognised, a broad licence condition also creates regulatory uncertainty and whilst guidance might seek to address this, the exact status of Ofgem’s supplementary guidance to the standard licence conditions remains unclear.

Option C, a form of co-regulation, would be overly bureaucratic and disproportionate in addressing improved transparency and communication.

**2 Should any obligation apply to small business consumers as well as domestic consumers?**

We do not believe that the case has been made and are unaware of any evidence of a problem with direct debits in the business sector. This may reflect that many business customers pay a variable direct debit amount to cover billed consumption, rather than a regular monthly payment for budgeting purposes. Also, business premises may also be more accessible for the purpose of obtaining actual readings on which to base direct debit payments, giving rise to fewer discrepancies.

**3 What would be a realistic timescale for implementation?**

As indicated in the covering letter, we believe it would be appropriate for matters to be reviewed at the end of calendar year 2009. Any changes which impact IT systems, processes and staff, inevitably require a reasonable period for development and implementation.

**4. Whether the obligations should apply to all suppliers irrespective of size or market share**

In the event that Ofgem pursues a licence route, we support the principle that obligations should apply equally to all licensed (domestic) suppliers, to ensure that the competitive market is not distorted.