ofgem Promoting choice and value
for all gas and electricity customers

Domestic suppliers' social obligations: 2008 Annual report

Document type: Report

Ref: 109/09

Date of publication: 28 August 2009

Target audience: Suppliers, consumer organisations and other interested parties

Overview:

This report summarises domestic suppliers' performance for the calendar year 2008 in relation to debt and disconnection, prepayment meters and services for vulnerable customers.

The key findings are:

- Energy debt levels and the number of people repaying debt in 2008 have broadly remained static. Average weekly repayment amounts have however generally increased;
- There were just under 6000 disconnections in 2008 - a reduction of nearly a third compared to the previous year;
- The overall number of customers paying by PPM has broadly remained static but there was a reduction in the number of PPMs installed during 2008 compared to 2007;
- There has been a sharp increase in the number of customers on suppliers' Priority Services Registers and who have received energy efficiency information.

We recognise that, in the current economic climate, many customers will be struggling to pay their energy bills. Ofgem will therefore continue to closely monitor suppliers' performance in these areas and will take forward any key issues identified in the report, under its ongoing Social Action Strategy workplan.

Contact name and details: Jude Cummins, Head of Consumer and Social Policy

Tel: 020 7901 7175

Email: jude.cummins@ofgem.gov.uk

Team: Consumer and Social Policy

Context

As part of its Social Action Strategy, Ofgem collects data from domestic suppliers on their performance in relation to their social obligations and in areas of operation where vulnerable customers may be affected. This includes performance and practice in relation to debt and disconnection, priority services register services and energy efficiency advice. The data is gathered and published on a quarterly basis and is available on the Ofgem website at:
http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Pages/SocObMonitor.aspx

This annual report presents a more comprehensive analysis of suppliers' performance in these areas throughout 2008. The report covers social obligations under the supply licence conditions and does not cover suppliers' activities related to their expenditure on voluntary social initiatives, which are reported on separately.

Associated Documents

- Social Action Strategy Update 2009-2011
  http://www.ofgem.gov.uk/Sustainability/SocAction/Documents1/SAS%202009.pdf
- Domestic suppliers' social obligations, Annual monitoring report, August 2007
  http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Suppliers%20Social%20Obligations%20Monitoring%20Report%202007%2011208.pdf
- Debt and disconnection best practice review (Ref 07/08)
  http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Debt%20and%20disconnection%20best%20practice%20review.pdf
- Suppliers submit the data in line with Ofgem guidance set out in the document 'Monitoring suppliers' performance in relation to domestic customers' and data presented in this document should be read in conjunction with this guidance to guard against misinterpretation. The guidance is available at:
  http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Monitoring%20Suppliers%20Performance%20Guidance.pdf
- Preventing debt and disconnection good practice guidelines, Ofgem and Energywatch, January 2003
  http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Preventing_Debt_and_Disconnection.pdf

Table of Contents

Summary

Ofgem collects data from domestic suppliers on a quarterly and annual basis, which is used to review suppliers' performance in relation to specific social obligations under their supply licence conditions and in areas where vulnerable customers may be affected. This includes performance and practice in relation to debt and disconnection, priority services registers and energy efficiency advice. This report relates to the calendar year January - December 2008.

Retail energy prices rose in 2008, directly reflecting the increase in wholesale energy prices. Despite these increases at a time of severe economic downturn, overall debt levels and the number of customers repaying a debt broadly remained static across both fuels. We are aware however that many customers are now struggling to pay bills and some are taking longer than usual to pay. This has not yet however followed through into increases in the number of customers entering into debt repayment plans with their suppliers and consequently being included in the debt figures that we monitor here.

The majority of indebted customers owe less than £100, however, in 2008 there were some increases in the proportion of indebted customers owing higher amounts, particularly for electricity.

Average weekly debt repayment amounts increased in 2008 across payment type for electricity and for gas credit customers. This increase in payment level is reflected in the reduction in the PPM repayment term for electricity debt from 77 to 68 weeks. PPM debt repayment levels remain consistently higher than credit debt repayment across both fuel types. Suppliers have a licence obligation to take account of indebted customers' ability to repay debt. Ofgem is concerned about these increases in average repayment amounts. We will be closely examining suppliers' policies and practices in this area over the next few months to ensure that they are abiding by both the letter and spirit of this licence condition in these tough economic times.

After rising steadily since 2005, the number of disconnections for debt reduced considerably in 2008. A total of 5890 disconnections took place in 2008 representing a 30% reduction on the 2007 figure. This 30% reduction overall represents a reduction of 48% in the number of gas disconnections from 5727 to 2999 and an increase in electricity disconnections of 9% from 2657 to 2891. Disconnection levels remain significantly lower than they were at the start of the decade. Whilst this is very encouraging, there is no room for complacency. Following previous reviews of suppliers debt and disconnection policies that have helped to drive the decrease in disconnections, Ofgem is currently reviewing the arrangements for protecting vulnerable customers from disconnection to see what further improvements in suppliers processes can be made. We are working jointly with Consumer Focus on this and have also begun a detailed review of suppliers' broader debt policies and procedures.

The overall number of customers paying by PPM has remained static for electricity and has increased slightly for gas in 2008 compared to 2007. There has been a

reduction in the number of PPMs installed during 2008 - primarily for electricity - the most marked reduction being in the installation rate for electricity payment where there is no debt. As part of its Retail Markets Probe, Ofgem has highlighted certain PPM price premiums, particularly at the upper end of the consumption range, which do not appear to have a sound cost justification. Whilst suppliers have already responded by making some significant moves to reduce these differentials, Ofgem has recently announced that it will be introducing two new licence conditions from 1st September 2009: one requiring any difference in the terms and conditions offered by suppliers in respect of different payment methods to be cost reflective; the other prohibiting discrimination in any terms and conditions offered to customers unless it can be objectively justified by suppliers. Going forward, we believe that these new conditions will provide an increased level of protection for those customers who pay by prepayment meter and others who are not able to readily access the best deals on the market.

There was a further decline in the number of customers using Fuel Direct, a Department for Work and Pensions (DWP) scheme taking fuel payment deductions directly from a customer's social security benefit. Fuel Direct can provide an excellent tool for low income customers, facilitating manageable debt repayment and budgeting for ongoing consumption. We will continue to highlight the importance of Fuel Direct as a payment method with suppliers and DWP and are pleased that the Energy Retail Association (ERA) is taking forward discussions with DWP about future plans for Fuel Direct.

For both fuels there was a marked increase in the number of customers on suppliers' Priority Services Registers (PSRs) in 2008 (0.3m increase for electricity and 0.2m for gas). We have highlighted the importance of supplier's promoting their Registers and being proactive in finding out if their customers should be placed on it in previous best practice reviews and are pleased to see these increases. We are also pleased to see a sharp increase in the number of customers on suppliers' PSRs who have received energy efficiency information. There was also a slight increase of 6% in the number of gas safety checks carried out following a fall in 2007 attributed to the change in eligibility criteria under the Supply Licence Review.

In addition to our current review of the arrangements to protect vulnerable customers from disconnection and further work later this year on some broader issues related to debit, Ofgem's latest Social Action Strategy update sets out our work plan for 2009-10 to address some of the issues raised in this report and other work to protect the interests of vulnerable consumers.

With the recession continuing and the prospects of growing numbers of households finding themselves struggling financially we will continue to monitor these figures carefully and to investigate where we have particular concerns.

1. Debt, disconnection and prepayment meters

Chapter Summary

This chapter reports on the patterns emerging from the analysis of data provided by suppliers in relation to debt, debt repayment, disconnection and prepayment meter use and instalment.

Overview of the domestic debt picture

1.1. Under their supply licence conditions, suppliers are required to take account of the needs of customers who are experiencing difficulty paying their energy bills. Customers must be allowed to repay outstanding charges by instalment, including through a pre-payment meter (PPM), where this is safe and reasonably practicable, or via direct deductions from Social Security benefits, where appropriate. Suppliers are required to be proactive in establishing customers' ability to pay and to take account of this when setting instalment amounts.

1.2. Despite the economic downturn and its associated pressures on consumers, overall debt levels and the number of customers repaying a debt broadly remained static across both fuels. However it is important to note that these debt figures only include those customers who have had their PPM set to collect a debt or who are on a debt repayment programme lasting longer than 13 weeks. It does not therefore capture those customers who may be delaying paying their bills as they juggle paying energy bills with other calls on their finances.

1.3. At the end of 2008, 4.8% of electricity customers (1.3 million customers) and 3.7% of gas customers (0.8 million customers) were repaying a debt[1]. The 2008 figures show a 3% reduction in the number of customers repaying electricity debt and a 2% increase in the number repaying gas debt.

1.4. For both fuels, approximately half of the customers in debt were prepayment meter (PPM) customers (48% electricity (0.6m customers) and 45% gas (0.36m customers)); approximately half were credit customers (52% electricity (0.65m customers) and 55% gas (0.44m)).

[1] 'Debt' in this document refers either to customers who have a PPM set to collect a debt or customers who are on a rescheduled debt repayment programme due to last longer than 91 days/13 weeks. Direct debit customers would only fall within this definition if they have specifically set up a direct debit in order to repay a debt.

1.5. Chart 1 illustrates how in 2008, the seasonal trend continued whereby the number of customers repaying a debt dipped towards the end of the year, in the billing period following the warmer months, and increased in the period following winter.

Chart 1: Number of customers repaying a debt (millions)

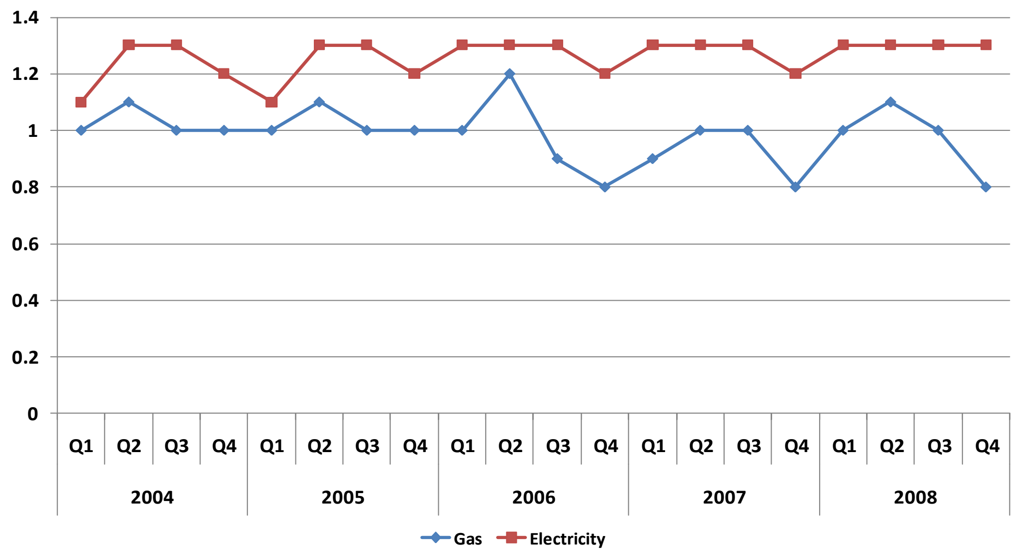
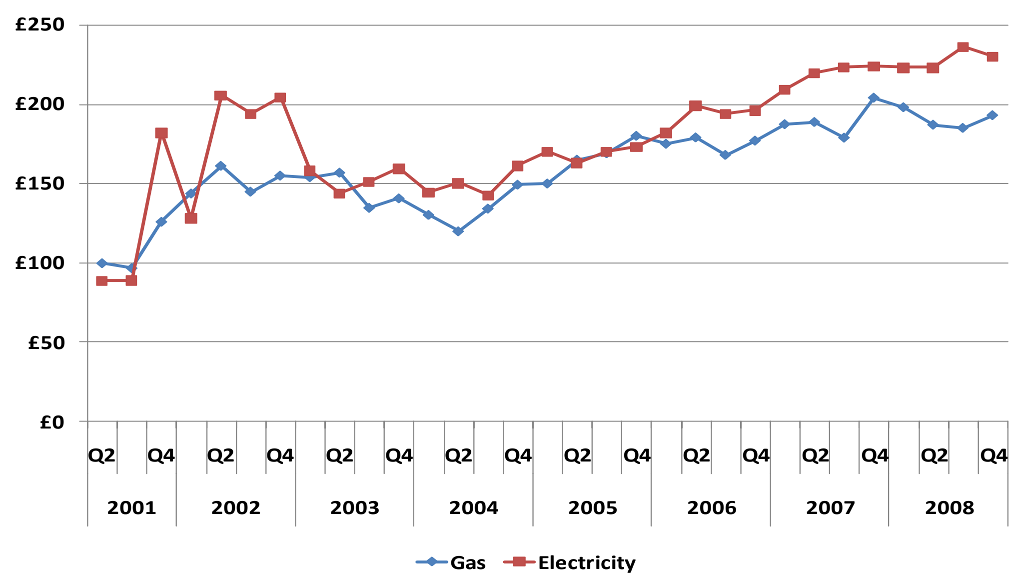


Chart 2: Average level of customer debt over time



1.6. As illustrated by Chart 2, above, the average debt level for electricity continued to increase over 2008. The average debt level for gas, however, decreased over the period, notwithstanding the increase in Q4. At the end of 2008 the average electricity debt was £230 (compared to £224 at the end of 2007) and average gas debt was £193 (compared to £204 at the end of 2007). Chart 2 illustrates the differential between the two fuels with electricity debt markedly higher than gas debt on a consistent basis since 2006.

Chart 3: Debt levels by proportion of customers repaying (electricity)

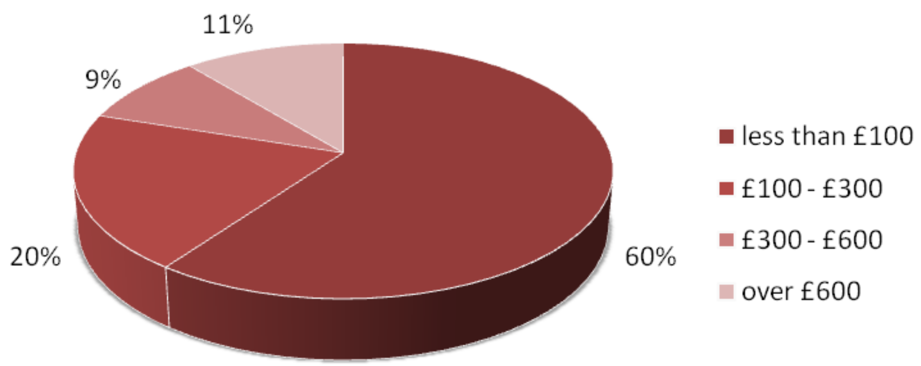
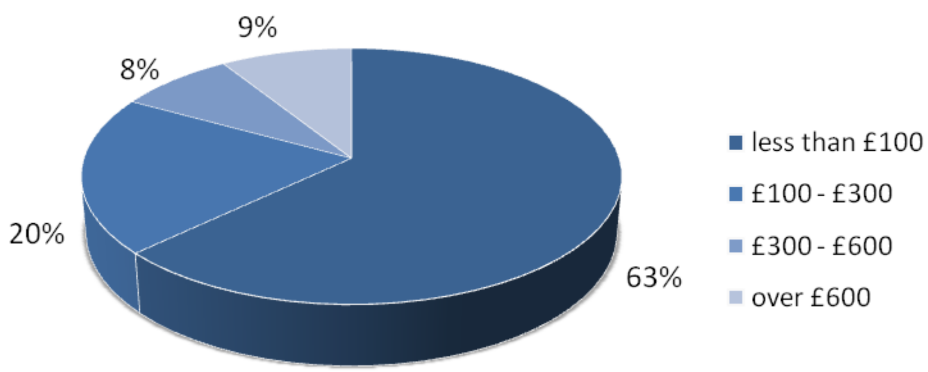


Chart 4: Debt levels by proportion of customers repaying (gas)



1.7. As illustrated by Charts 3 and 4, above, the majority of indebted customers owe less than £100, however, we continue to see some increase in the proportion of customers owing higher amounts. In 2008 the number of customers owing £100 - £300, £300-£600 and over £600 to electricity debt increased by 9%, 10% and 11% respectively. There were smaller increases in the number of customers owing £100-

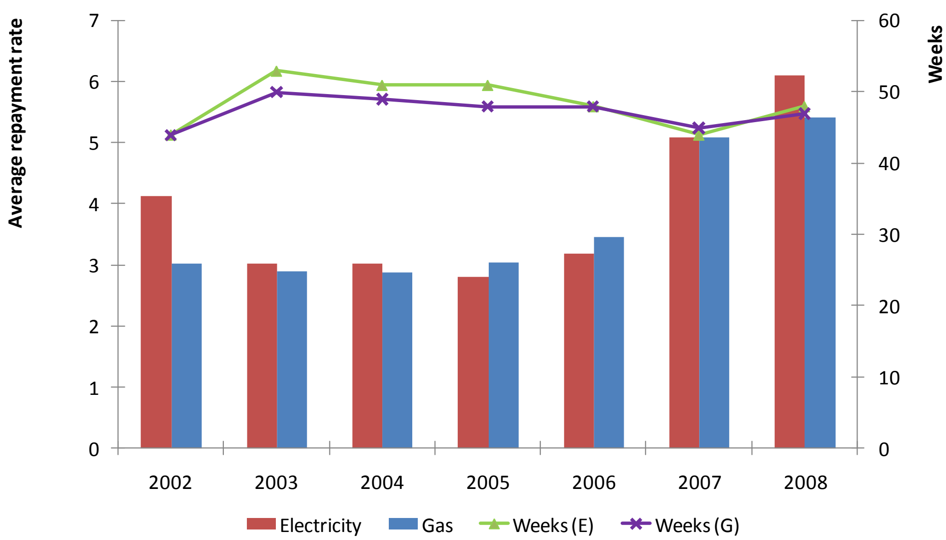
£300 and £300-£600 in gas debt (5% and 4% respectively) and there was a negligible decrease in the number of customers owing over £600 in gas debt. In our previous best practice reports we have stressed the importance of suppliers tackling debt early to prevent the build up of high levels of debt. With higher energy prices this early intervention and proactive debt management becomes all the more important. We will be exploring this further as part of our review of suppliers' debt policies.

Debt repayment rates

1.8. In our previous reporting of average debt repayment rates, we have included data for each of the Big 6 suppliers and a number of small suppliers. We are concerned, however, that including the small suppliers risks distorting the wider picture given that their customer bases are not necessarily representative of the broader market. For this reason, in this report and going forwards we will exclude smaller suppliers from this part of our analysis. For Charts 5 and 6 below, the figures for 2007 and 2008 relate to the average repayment rates for the big 6 suppliers only. Prior to 2007, the average repayment rates relate to all suppliers reporting to Ofgem, including small suppliers.

1.9. Average weekly repayment amounts increased in 2008 compared to 2007 - across payment type and for both fuels. In electricity, the average weekly repayment for credit customers increased by £1.02, to £6.12 - an increase of 20% since 2007 - and by 89p to £7.36 for PPM customers. Increases were less accentuated for gas debt repayment with increases of 34p to £5.43 per week for credit customers and only 1p to £6.61 for PPM customers.

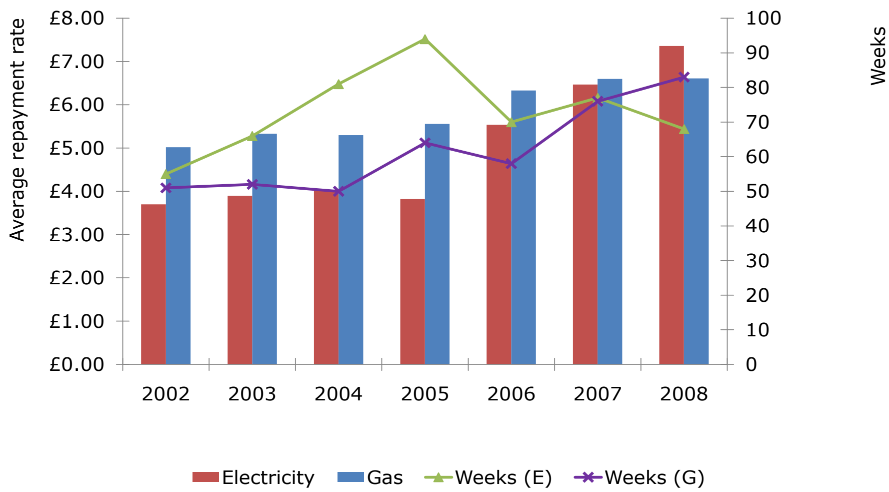
Chart 5: Average repayment rates for credit customers (big 6 suppliers)



1.10. PPM debt repayment levels remain consistently higher than credit debt repayment across both fuel types, with the figure for PPM electricity debt repayment rising by 14% since 2007. As illustrated in Chart 6, this increase in payment level coincides with a reduction in the PPM repayment term for electricity debt from 77 to 68 weeks.

1.11. The significant increase in the average repayment demanded is of concern to Ofgem and we intend to explore this further as part of review of suppliers' debt policies and processes later this year.

Chart 6: Average repayment rates for PPM customers (big 6 suppliers)



1.12. Suppliers' licence conditions require them to take account of indebted customers' ability to repay when setting repayment terms and instalment levels. Current guidelines[2] recommend that instalment amounts are set no higher than the Fuel Direct level of £3.03 per fuel for customers on benefits and for low-income, high usage customers. We expect suppliers to demonstrate adherence to their licence conditions in ensuring that repayment arrangements are manageable for customers on all payment types, even where this involves repayment over a longer period of time. Suppliers' conduct in this area is of particular importance in the current

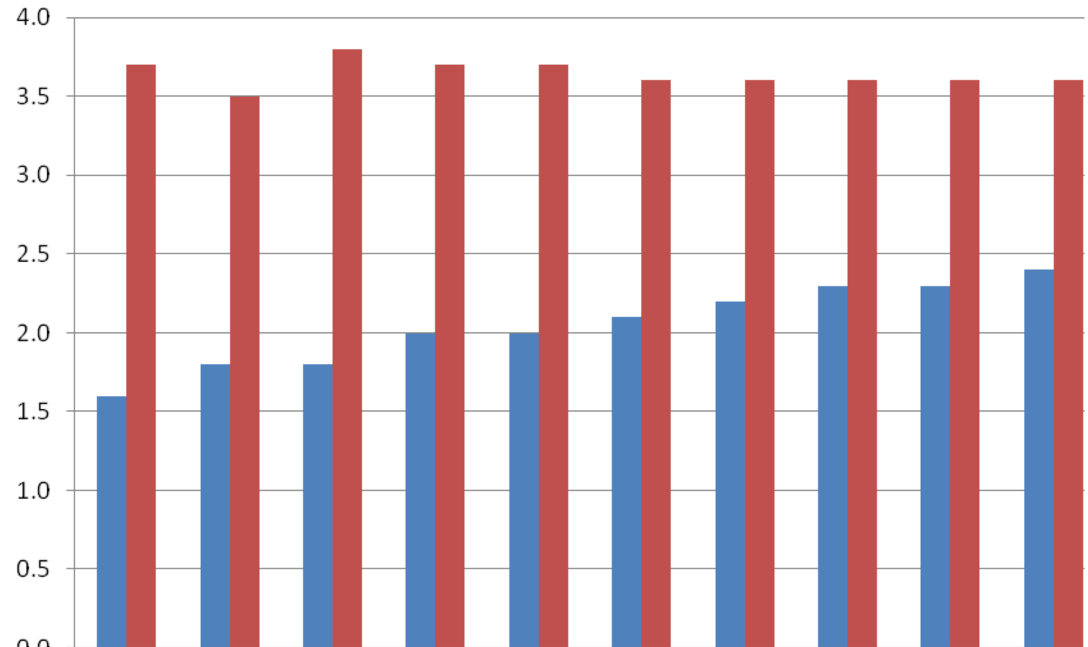
2 *Preventing debt and disconnection: Good practice guidelines*, Ofgem and Energywatch, 2003, http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=100&refer=Sustainability/SocAction/Publications

economic climate where customers are increasingly likely to be less able to meet their financial commitments and more likely to be facing problem debt.

Prepayment meter (PPM) customers

1.13. Historically, PPM usage has been lower for gas than for electricity because safety and access requirements make meter installation much more difficult. Over the last ten years, however, there has been a gradual but significant increase in the number of customers paying for gas by PPM. This may indicate an increased willingness by suppliers to install gas PPMs, where this process can be managed safely. Chart 7, below, shows the trend since 1999. Electricity PPM usage has remained static at 3.6m since 2004, but gas usage has increased by 0.1m to 2.4m in 2008, continuing the longer term trend.

Chart 7: Number of PPM customers (millions)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gas	1.6	1.8	1.8	2.0	2.0	2.1	2.2	2.3	2.3	2.4
Electricity	3.7	3.5	3.8	3.7	3.7	3.6	3.6	3.6	3.6	3.6

1.14. We know from previous research that some customers prefer to use PPMs for ongoing consumption because they provide a useful mechanism for budget management and debt avoidance; this can particularly be the case where customers have irregular or non-monthly budgeting cycles due to their wage or benefit payment period. There have, however, long been concerns expressed over the price differential between PPM and other payment methods such as direct debit or standard credit quarterly bill payment.

1.15. As part of its Retail Markets Probe, Ofgem conducted research into the different prices charged to PPM and standard credit (SC) customers compared to those who pay by direct debit (DD). The average differential between PPM and DD of the six main energy suppliers increased from around £80 at the beginning of 2005 to around £125 in 2008 - an increase of more than 50%.

1.16. While it is recognised that PPM customers present a higher cost to serve for suppliers than customers on other payment methods, Ofgem has highlighted certain PPM price premiums, particularly at the upper end of the consumption range, which do not appear to have a sound cost justification. We are concerned about the potential detrimental impact of this on PPM customers - many of whom are on low incomes and may be vulnerable. We also identified particular issues for those customers who pay by standard credit. Following the publication of the Energy Supply Probe's Initial Findings Report in October 2008, a number of suppliers reviewed and substantially narrowed their price differentials.

1.17. Ofgem subsequently published a separate consultation on addressing unfair price differentials[3] and following a further round of consultation in the spring, published its final proposals to address unjustified price differentials in June 2009.[4] As a result two new licence conditions will be coming into force from 1st September 2009: one requiring any difference in the terms and conditions offered by suppliers in respect of different payment methods to be cost reflective; the other prohibiting discrimination in any terms and conditions offered to customers unless it can be objectively justified by suppliers.

Debt blocking and the debt assignment protocol

1.18. Under their licence conditions, suppliers can block domestic customers from switching when an amount remains outstanding on their account, 28 days after it has been formally demanded. The Debt Assignment Protocol (DAP) allows PPM customers with debt below £100 to switch supplier and transfer their debt to their new supplier but since its introduction in 2004, the Protocol has been very rarely used.

1.19. As part of Ofgem's package of Probe remedies, we intend to raise the DAP debt threshold to £200 in order to broaden eligibility for existing PPM customers. We will be looking further at other improvements to debt blocking as part of our broader review of debt policies and practices later this year.

---

[3] http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=95&refer=Markets/RetMkts/ensuppro

[4] http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=100&refer=Markets/RetMkts/ensuppro

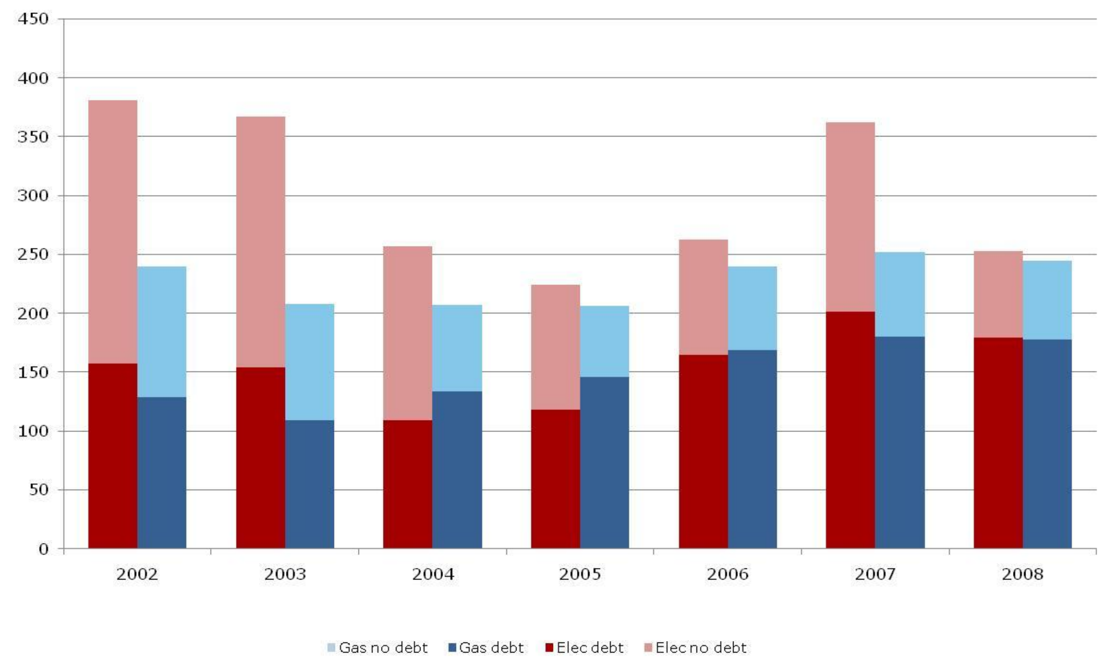
PPM installation rates

1.20. PPM installation rates reduced across both fuel types in 2008; the most significant decline being in the rate of electricity PPM installation where there was no debt (usually this would mean installation has taken place at the customer's request).

Table 1: Reason for PPM installation by fuel and by year

Reason for installation	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Electricity						
Debt recovery	154,000	109,000	118,000	165,000	201,000	179,000
No debt	213,000	148,000	106,000	98,000	161,000	74,000
Total	367,000	257,000	224,000	263,000	362,000	253,000
Gas						
Debt recovery	109,000	134,000	146,000	169,000	180,000	178,000
No debt	99,000	73,000	60,000	71,000	72,000	67,000
Total	208,000	207,000	206,000	240,000	252,000	245,000

Chart 8: Reason for PPM installation (thousands)



NB: The figure for 2007 installation for electricity PPMs (no debt) was particularly high due to a substantial increase reported by E.ON (formerly Powergen). In 2007, E.ON reported that they had installed 113,327 PPMs with no debt compared to 38,595 in 2006. However, in collating this data, E.ON used industry data flows that were likely to have included meter installation under their accelerated token PPM replacement programme and thus the figure for non-debt PPM installation is likely to be overestimated. E.ON introduced new reporting arrangements for 2008 and therefore the 2008 figure reflects the actual trend.

1.21. Taking into account the distortion in the 2007 figure outlined above, the 2008 figure for electricity PPM installation without debt sees the continuation of the overall downward trend over the last 5 years. For both fuels, installation rates for debt recovery are lower than in 2007; the shift is negligible for gas but more pronounced for electricity.

1.22. With more customers experiencing financial difficulties as a result of the current economic climate, there is a concern that numbers on prepayment meters may start to increase. We will continue to monitor this closely.

Token PPMs

1.23. Token PPMs are older technology meters which cannot be remotely recalibrated and therefore require the supplier to gain access to the meter following a price change. Suppliers are currently rolling out programmes to replace these older meters with newer technology PPMs. Ofgem has worked with suppliers to ensure that they have appropriate arrangements in place as part of their phase-out programmes, to ensure that customers are not left off supply. As part of this work we have developed principles detailing the minimum steps that we would expect to be included in any token PPM withdrawal programme. These can be found in our update published on 2 February 2009.[5]

1.24. There were around 258,000 old token PPMs remaining in stock for all suppliers at the end of December 2008; this is a reduction of over a million since Ofgem published its December 2006 statement of good practice.[6] By the end of June 2009 the total number of old token PPMs had fallen even further to 158,000. Ofgem welcomes suppliers' efforts to minimise debt build-up through the timely recalibration of token PPMs and through their replacement programmes. We intend to continue to monitor suppliers' performance in this area throughout 2009 and will publish further updates on their progress. By the end of 2009 suppliers have committed to there being very few token PPMs left as they will have largely completed their exchange programmes except where they have had persistent problems gaining access.

5 http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=129&refer=Sustainability/SocAction/Publications

6 http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Pages/Publications.aspx

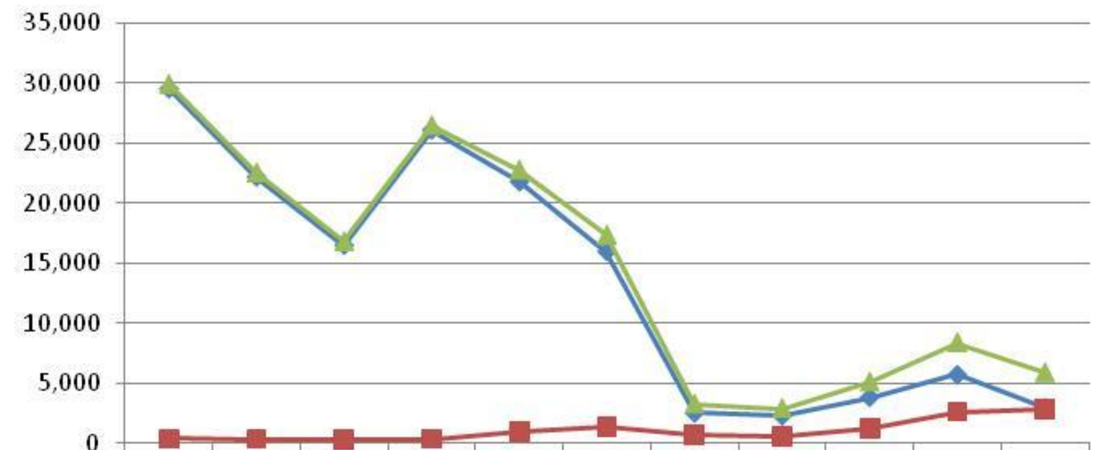
Disconnection for non-payment of debt

1.25. Suppliers have a number of licence obligations in relation to disconnection for non-payment of electricity and gas charges. A supplier must not disconnect a domestic premises unless it has taken all reasonable steps to recover charges through regular instalments, installation of a PPM and, where possible, direct deductions from the customer's social security benefit under the Third Party Deductions Scheme. Suppliers must not disconnect supply in Winter where they know or have reason to believe that the premises is a pensioner household and they must take all reasonable steps to avoid disconnecting in Winter where the household includes a person who is of pensionable age or who is disabled or chronically sick.

1.26. Between 2001 and 2005, there was a sharp reduction in the total number of disconnections, directly linked to the significant reduction in gas disconnections over this period. We reported a number of reasons for this overall reduction, including:

- Pressure on suppliers to disconnect only as a last resort;
- Suppliers increasing the number of PPMs installed to recover debt as an alternative to disconnection;
- The voluntary ERA safety net introduced by suppliers to not disconnect vulnerable customers; and
- The decision by British Gas to temporarily stop all domestic disconnections.

Chart 9: Number of disconnections for debt over time



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gas	29,500	22,177	16,500	26,088	21,780	15,973	2,553	2,309	3,859	5,727	2,999
Electricity	400	373	300	375	995	1,361	727	604	1,258	2,657	2,891
Totals	29,900	22,550	16,800	26,463	22,775	17,334	3,280	2,913	5,117	8,384	5,890

1.27. Disconnections started to increase from 2005. The 2008 figures, however, were significantly lower than in 2007 and disconnection numbers continue to remain at a much lower level than at the beginning of the decade.

1.28. In 2008, a total of 5890 customers were disconnected, representing a 30% decrease on the number of disconnections carried out in 2007. The number of customers disconnected for gas debt reduced by 48% from 5727 to 2999. While electricity disconnections have increased overall in 2008 by 9%, the rate of increase has slowed significantly in relation to previous years. The overall reduction and the slowing of the rate of increase in electricity disconnections are likely to be attributable to a number of factors outlined below.

1.29. In July 2008, E.ON suspended all domestic disconnections following an internal review which identified that a number of vulnerable households had been disconnected. E.ON advised Ofgem at the start of 2009 that all of these customers (where they were still present at the disconnected properties) had been reconnected. E.ON has subsequently conducted a full review of its systems, policies and procedures and has implemented a number of measures to address weaknesses identified. Ofgem have been advised that E.ON will not recommence disconnection for debt until it is confident that its processes are sufficiently robust to prevent this situation from arising again.

1.30. British Gas has also operated a non-disconnection policy since 2003 but recently resumed disconnections of occupied properties, albeit in very low volumes; in 2008 they reported 3 electricity and 8 gas disconnections. British Gas have advised Ofgem that this disconnection activity is being conducted in a controlled environment with each case reviewed and monitored at length before approval is given for disconnection to take place. Where vulnerability is identified at any point on the debt process, supply will not be disconnected.

1.31. Npower took the decision in 2008 to suspend domestic disconnections during winter, significantly reducing its annual disconnection figure; no disconnections were carried out during the period between early November 2008 and the end of April 2009. Npower also carried out a review and refinement of its debt follow-up processes in 2008, as a result of which, npower was better able to secure payment from customers earlier in the collections cycle, thus reducing the number of cases proceeding to disconnection.

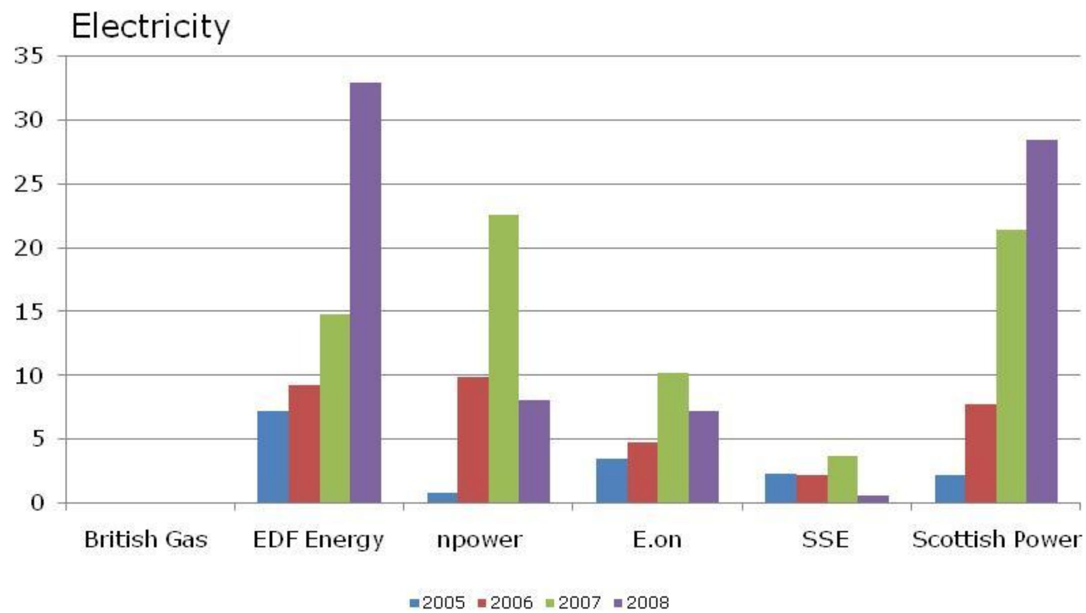
Electricity disconnection

1.32. E.ON, npower and SSE all reduced their electricity disconnection level in 2008 - npower so doing by 66%. EDF, however, reported a 130% increase in electricity disconnections over the period which put theirs at the highest level across industry. EDF have advised that this increase is as a result of them following Health and Safety Executive (HSE) advice which meant that they were unable to install PPMs in an increasing number of London properties where a high proportion of meters are housed in meter intake rooms or where the meter would have to be positioned at a height that would prohibit use. However we are very concerned about these increases particularly as it is apparent that in Q12009 EDF also disconnected a relatively high number of properties. We will be writing to EDF to explore the increase in their electricity disconnections further.

1.33. Scottish Power's electricity disconnection rate also increased in 2008, by 37%. Scottish Power has attributed this increase to efficiency improvements in its debt follow up process, leading to an increase in the number of indebted customers being taken through the debt management and recovery process. Scottish Power maintains that disconnection remains an action of last resort and has been actively promoting PPM repayment as a cheaper alternative to the standard cash bill. Despite the overall increase for the full year, their disconnection levels fell substantially in the last quarter of 2008 to bring them broadly in line with the others for Q4 and they predict continued falls in 2009.

1.34. Charts 10 and 11 below, show disconnection figures by year and by supplier **per 100,000 customers** for electricity and gas respectively.

Chart 10: Big 6 electricity disconnections by supplier (per 100,000 customers)

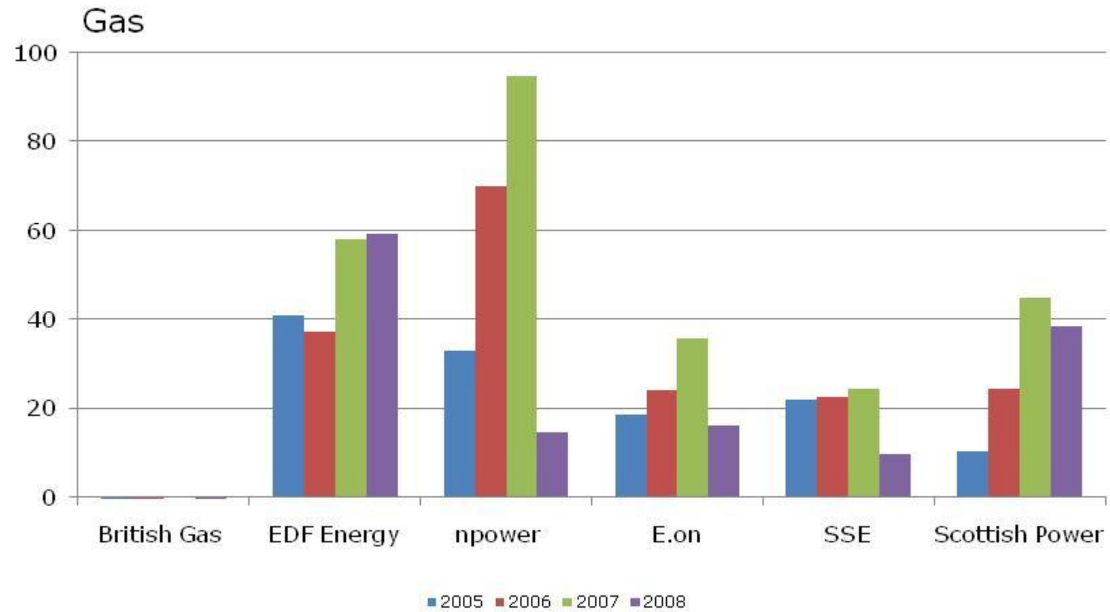


Gas disconnection

1.35. All suppliers except EDF disconnected fewer customers for gas debt in 2008 than in 2007; EDF's increase was relatively low, at 11%. npower reported a marked reduction (of 85%) in their gas disconnections in 2008, attributing this in part to their improved debt recovery processes and an increase in gas PPM installation in properties where the customer was absent (and to which, previously, supply may have been disconnected). As mentioned above, in 2008, npower also took the decision not to disconnect any customers over the winter period.

1.36. SSE also reduced their gas disconnection rate significantly in 2008 - by 54% on their 2007 figure. This was mainly as a result of an increase in PPM installation as an alternative to disconnection but is also in part attributable to the introduction of a number of new measures to reduce the number of customers getting in to debt. This has included credit vetting for new customers, ensuring customers are on the correct payment method and tariff, proactively contacting indebted customers and fitting gas PPMs rather than disconnection where the customer is absent.

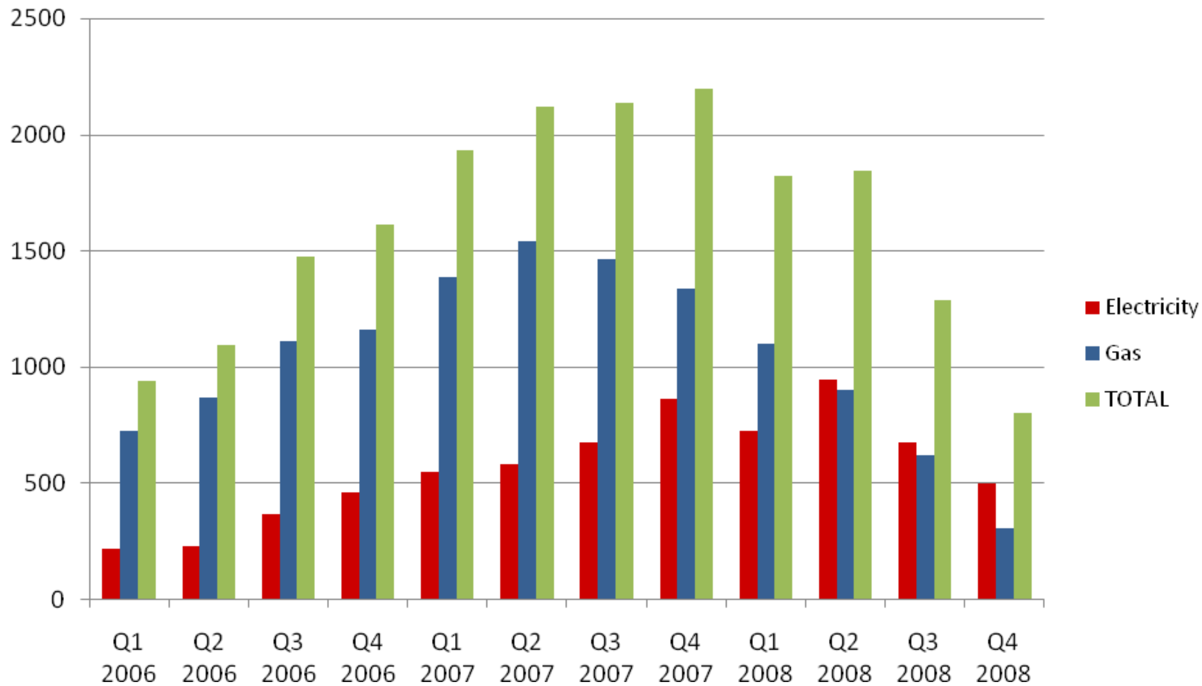
Chart 11: Big 6 gas disconnections by supplier (per 100,000 customers)



Overall disconnection trends

1.37. Historically, disconnection rates have always been significantly higher for gas than for electricity, reflecting the difficulty in gas PPM installation and the consequent inability for suppliers to use gas PPMs as an alternative to disconnection, although as noted above, suppliers are starting to find way to address this. The 2008 data show a shift in this pattern, with disconnection levels for gas falling to such an extent that over the year the rates for the two fuels almost match.

Chart 12: Overall number of disconnections by quarter (big 6)



1.38. Chart 12 above shows the number of disconnections by fuel type, per quarter and Charts 13 and 14 below, show quarterly disconnection rates by supplier (per 100,000 customers).

1.39. Chart 13 shows that while EDF's and Scottish Power's electricity disconnection rates were significantly higher overall than in 2007, both suppliers reported a downward trend in the second half of 2008. EDF's rate for Q4 2008 is still significantly higher than in Q4 2007 and we are concerned that early figures for Q1 2009 show an increase. Scottish Power however had, in the final quarter of 2008, brought their electricity disconnection numbers down to a level considerably below their Q4 2007 rate.

1.40. Chart 14, below, illustrates the reduction in the number of gas disconnections for all suppliers (except British Gas who reintroduced trial disconnections in Q4) in the last quarter and particularly highlights npower's performance improvements in 2008.

Chart 13: Quarterly electricity disconnections by supplier (per 100,000 customers)

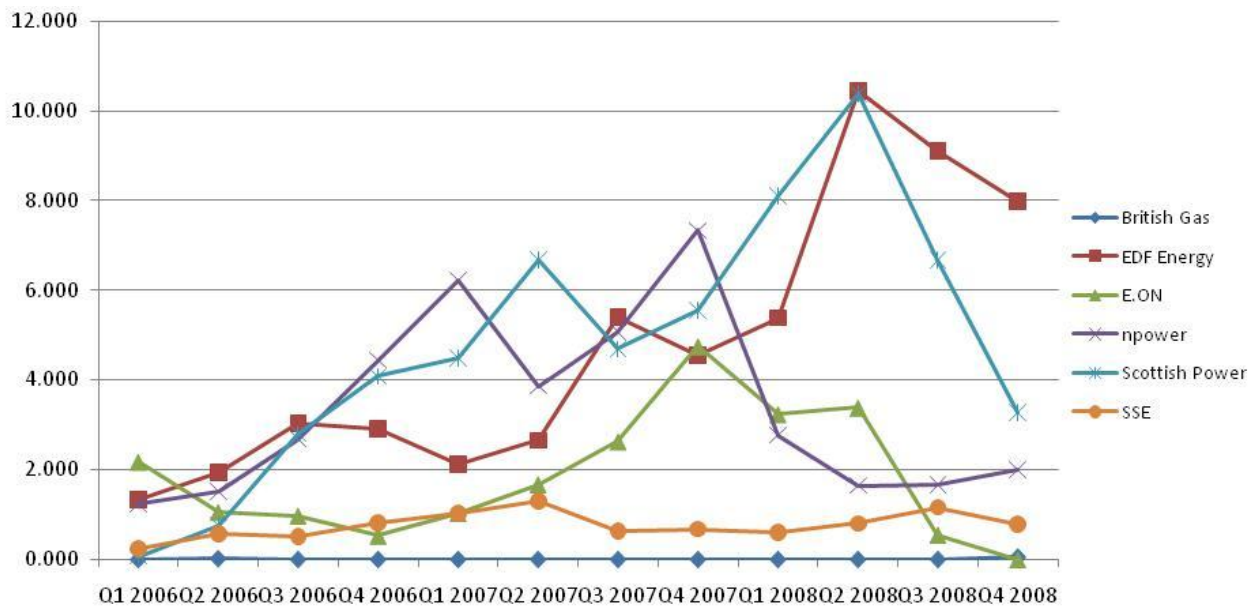
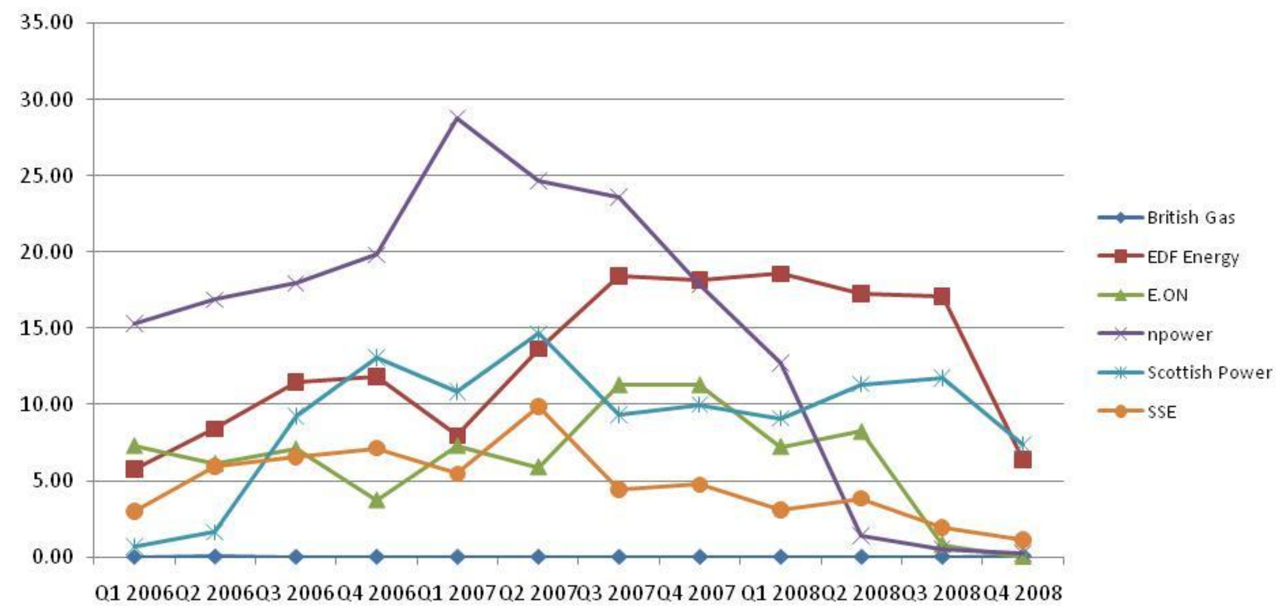


Chart 14: Quarterly gas disconnections by supplier (per 100,000 customers)



The Energy Retail Association safety net and vulnerable customers

1.41. In 2004, following publication of the Ofgem and energywatch good practice guidelines on preventing debt and disconnection and in response to criticism following the Bates' case[7] the Energy Retail Association (ERA) which represents the six largest domestic energy suppliers, developed a 'safety net' to augment their existing licence obligations in this area and better protect vulnerable customers from disconnection. The safety net defined a vulnerable customer as one who is unable to safeguard their personal welfare or the personal welfare of other members of the household for reasons of age, health, disability or severe financial insecurity.

1.42. In January 2008, Ofgem published its Debt and Disconnection Best Practice Review. This report highlighted examples of best practice across the industry and reported that suppliers had worked to develop more targeted practices to better support indebted customers through a range of solutions and more holistic advice paths. The 2008 Review did, however, find that there was still considerable room for improvement and made clear Ofgem's expectation that suppliers work harder to proactively ascertain real ability to pay when a customer is getting into payment difficulty.

1.43. In its 2009-10 Corporate Strategy, Ofgem committed to carrying out a further review of suppliers' debt and disconnection policies and practices; this piece of work is scheduled to run until the end of 2009. As part of this, we are currently working jointly with Consumer Focus to review the framework that is in place to protect vulnerable customers from disconnection. The review is examining suppliers' policies and procedures to ensure that these are effective in enabling suppliers to identify vulnerable customers and sufficiently robust to afford them the requisite protection against disconnection; it has also looked at the ERA safety net to ensure that it is fit for purpose and is examining whether any further protections to augment the existing framework are necessary. Following the review we will be publishing a report highlighting a range of good practice from suppliers and flagging where we think further work needs to be done.

[7] Mr and Mrs Bates, a couple of pensionable age, were found dead in their home in October 2003 after their gas supply had been disconnected in August for non-payment of a bill.

2. Help for vulnerable customers

Chapter Summary

This chapter outlines the key trends identified in relation to suppliers' licence obligations to assist vulnerable customers through the Priority Services Register (PSR). It also looks at trends in the provision of energy efficiency advice to PSR customers and at uptake levels of Fuel Direct, a budgeting payment method administered by the Department for Work and Pensions (DWP) to facilitate energy payments directly from Social Security benefit.

Priority Services Register

2.1. Under their licence conditions, domestic suppliers have an obligation to maintain a Priority Services Register (PSR) of all customers who are of Pensionable Age, disabled or chronically sick and who have requested to be registered. Suppliers must provide a range of services to PSR customers and provide information on these services, free of charge, to all registered customers.

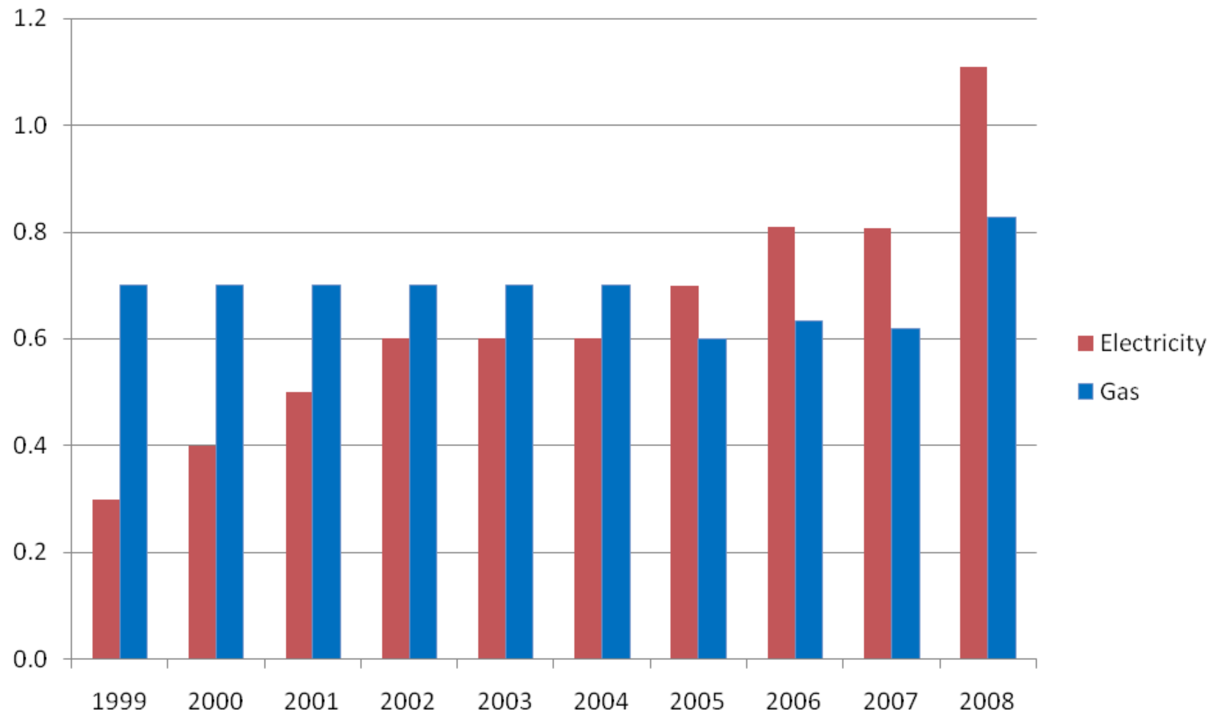
2.2. Services to be provided by suppliers include, where requested by the customer, quarterly meter readings where the customer is unable to read the meter, relocation of PPM meters to ensure accessibility and provision of bills and billing / complaints information in an accessible format for blind or partially sighted and deaf or hearing impaired customers. Suppliers must, at least once a year, take all reasonable steps to inform each of their domestic customers that the PSR exists and how eligible customers can be registered. In addition, some suppliers use the PSRs to help in targetting other forms of assistance such as their social programmes.

2.3. In 2008 the number of customers on suppliers' PSRs has increased by 0.3m for electricity and 0.2m for gas.

2.4. E.ON reports the highest percentage increase of registered PSR customers since 2007 for both fuels with an increase of 110% for electricity and 119% for gas. In real terms, E.ON now has the highest number of electricity customers registered on their PSR and the second highest number of gas customers. SSE and EDF report PSR number increases of 40% and 23% respectively. There has been no reduction in the number of electricity customers who are PSR registered although increases for British Gas and npower are negligible at 4% and 5% respectively.

2.5. SSE and EDF also report substantial increases in their PSR gas customer numbers with respective increases of 44% and 36% on their 2007 levels. All suppliers except for npower reported an increase in their gas customer PSR levels, although again, British Gas' increase was low at 2%, as was npower's decrease at 4%.

Chart 15: Number of customers (millions) on Priority Service Registers



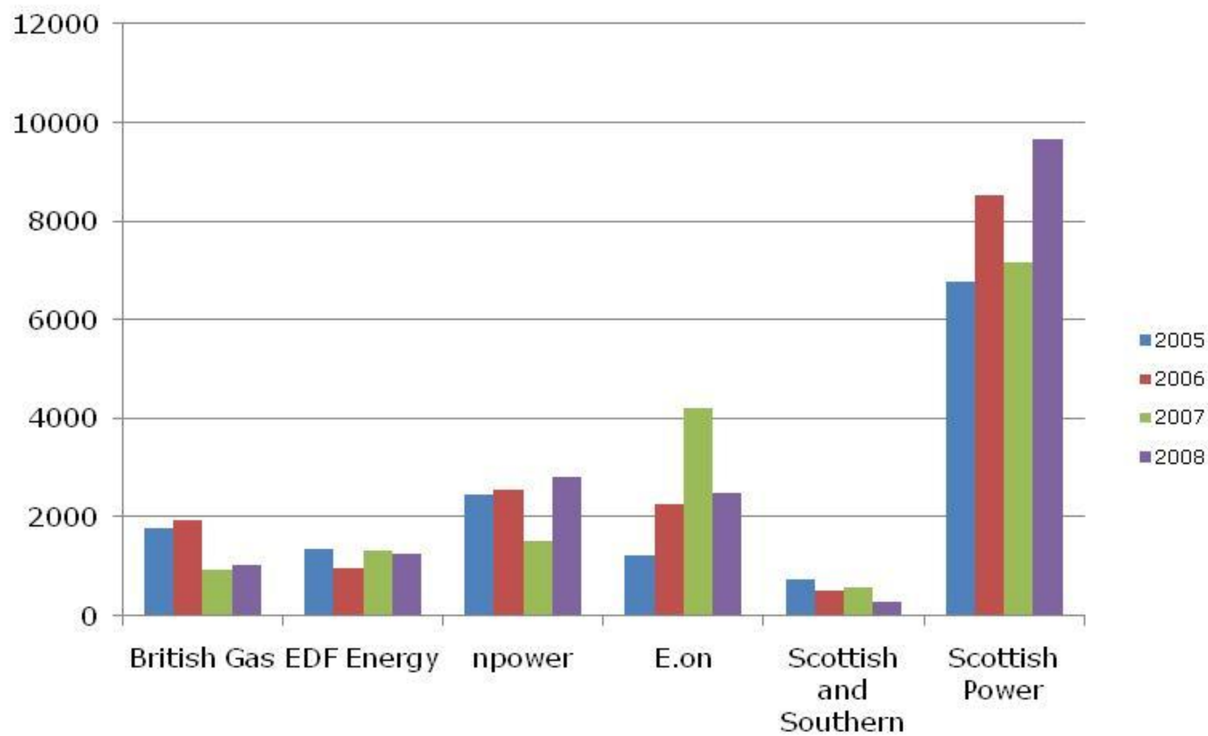
2.6. It should be noted that where PSR number fluctuations are small it could simply be as a result of natural customer demographic shifts across the market. However, we have seen a notable upward trend in the number of customers on suppliers' PSRs in 2008, which illustrates improvements in the communication and promotion of the existence of their PSR by some suppliers. We encourage suppliers to actively promote awareness of their PSRs and where appropriate, proactively ascertain customer eligibility so that services can be appropriate targetted.

Gas safety checks

2.7. Suppliers are obliged to provide a free gas safety check annually, upon request, to specific households. In August 2007 changes were made to the eligibility criteria to focus eligibility on those who were considered to be most at risk of carbon monoxide poisoning. Among pensioners and the chronically sick eligibility was narrowed to focus on those on low incomes but coverage was extended to include families with young children who can be particularly susceptible. In parallel new information obligations were placed on suppliers to raise awareness of the risks of carbon monoxide poisoning across all their customers.

2.8. In 2007, we reported a fall in the number of gas safety checks, attributing this to this change in eligibility criteria. 2008 saw a slight increase of 6% in the total number of gas safety checks with Scottish Power performing particularly well (see Chart 16, below). Scottish Power have advised that they proactively offer gas safety checks to all of their PSR customers, therefore targeting a wider group of customer than is required under the licence condition.

Chart 16: Gas safety checks (per 1m customers) by supplier



Energy Efficiency

Energy efficiency information

2.9. The Carbon Emissions Reduction Target (CERT) is the Government's key energy and carbon reduction programme for the domestic sector. Under CERT, energy suppliers are required to deliver on carbon reduction targets through the promotion of energy efficiency measures; 40% of the carbon reduction target must be achieved through the provision of measures to the priority group - consumers who are in receipt of specific income related benefits or tax credits, or who are over the age of 70. Government has also recently consulted on the Community Energy Savings Programme (CESP) a proposed new scheme to augment carbon reduction in the domestic sector.

2.10. Separate to these statutory carbon reduction and energy saving requirements, suppliers have licence obligations to provide energy efficiency information to customers upon request, via a telephone information service and through website publication. This information must be provided free of charge and must include not only information on how to increase the energy efficiency of domestic premises but also information on other sources of advice and sources of financial assistance available via government schemes, to improve energy efficiency in the home. For the purposes of reporting this data, we do not include website downloads; we include verbal or written information including general information given by customer service staff.

2.11. Ofgem collects data on suppliers' provision of energy efficiency information to specific customer groups such as those on the supplier's PSR or those in debt who may be in greater need of this information and who may gain particular benefit. PSR customers can tend to have high consumption levels where perhaps, as a result of their age or disability they spend more time at home and/or need to heat their home to a higher temperature. These customers may, for the same reasons, be in fuel poverty and may ration fuel consumption in order to avoid getting in to debt.

2.12. In 2008 there was a marked increase to just over 31,000 in the number of PSR customers given energy efficiency information - representing an increase of 28% since 2007. The proportion of PSR customers given such advice does still however remain relatively low.

2.13. There is a further obligation on suppliers to provide energy efficiency information to customers experiencing payment difficulties; in 2008 there was a 22% increase in the provision of energy efficiency information to customers in debt, across all suppliers.

2.14. British Gas and E.ON have improved considerably in this area with respective increases of 36% and 122% over the period while npower has turned their performance around over the year with a shift from 31 to 7303 indebted customers receiving energy efficiency information. Scottish Power reported a 21% reduction in 2008 but proportionate to their customer base, remain one of the best performers in this area.

Chart 17: Number of PSR customers (thousands) given energy efficiency information

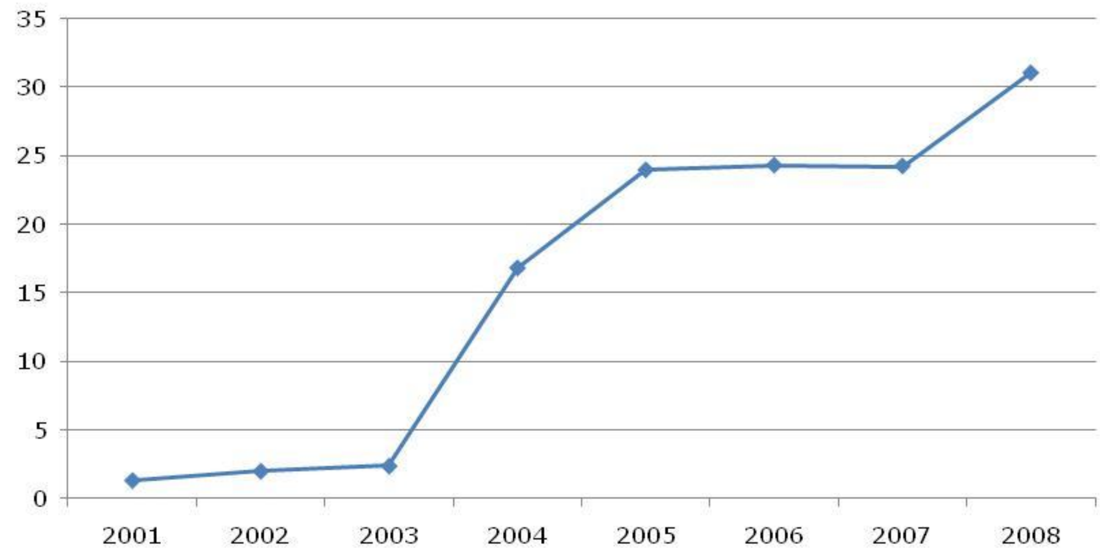
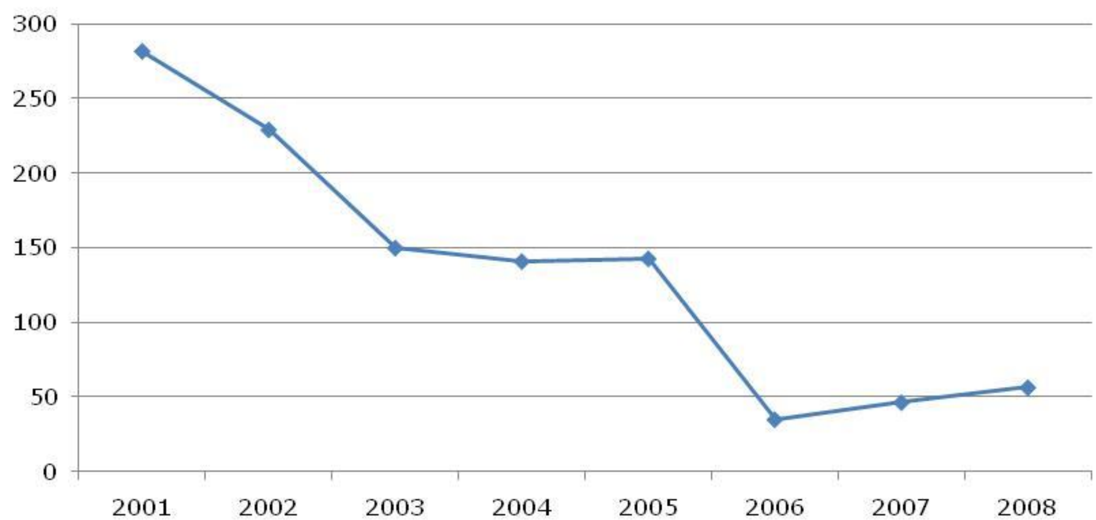


Chart 18: Number of customers (thousands) in debt given energy efficiency information



Energy efficiency advice

2.15. In addition to energy efficiency information, suppliers also provide more specialist energy efficiency advice to customers - delivered through a specialist advice line or qualified staff member. As illustrated in Chart 17, 2008 saw a 9% increase in the number of customers provided with energy efficiency advice (0.45%

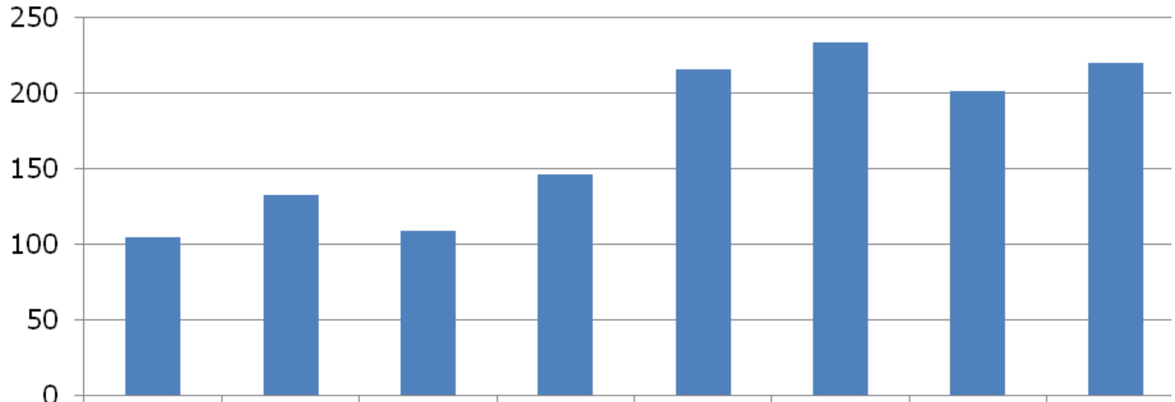
of all customers) - an improvement on the 2007 figure which showed a 14% reduction on 2006.

2.16. Of the big 6 suppliers, Scottish Power is the only supplier to report a reduction in the number of customers receiving energy efficiency advice, as a proportion of total customer base, but as in 2007 it remains the leading big 6 supplier in this area providing energy efficiency advice to the greatest proportion of its customer base (1.03%). SSE also provided advice to a proportionately high number of its customers in 2008 (0.87%) and npower reported a 152% increase in its energy advice provision since 2007.

2.17. As part of the proposed package of Probe remedies, Ofgem has proposed a licence condition requiring suppliers to provide energy efficiency information alongside tariff and debt advice where customers are prohibited from switching supplier because of outstanding debt - thus supporting expenditure reduction and earlier debt repayment.

2.18. Energy efficiency information and advice can help to prevent and/or alleviate energy indebtedness and fuel poverty and can help to avoid fuel rationing to avoid debt. By informing customers, promoting energy efficiency measures and encouraging behavioural change, suppliers can impact positively on these issues. We continue to monitor trends in this area and strongly encourage suppliers to work proactively in supporting customers to reduce their necessary fuel consumption as part of an ongoing holistic approach to addressing customer debt.

Chart 19: Customers (thousands) given energy efficiency advice



	2001	2002	2003	2004	2005	2006	2007	2008
Advice	104,558	132,336	108,894	146,200	215,587	234,149	201,364	220,024

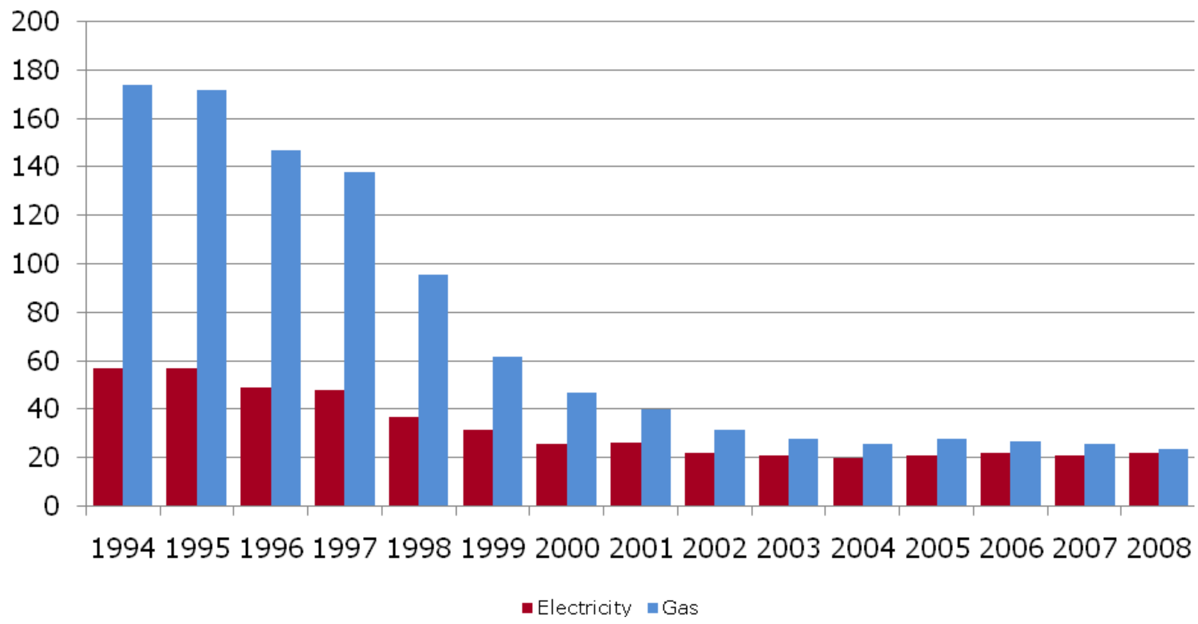
Fuel Direct

2.19. Fuel Direct (also known as Third Party Deductions) is a scheme administered by the Department for Work and Pensions (DWP) to facilitate direct, fixed amount payments for energy debt and ongoing consumption from specific Social Security benefits. The scheme is generally considered a 'last resort' prior to disconnection, for customers who are in payment difficulty and struggling to budget appropriately. To be eligible, the customer has to be in debt to their energy supplier for at least one fuel type.

2.20. Suppliers have an obligation under their licence conditions to offer Fuel Direct where an eligible customer is in payment difficulty but suppliers also see considerable value in the scheme as a means of facilitating regular payment and assisting customers on low incomes who struggle to budget effectively.

2.21. Fuel Direct customer levels declined significantly between the mid-1990s and 2002 - the decline being most accentuated for gas customers but with a similar trend in electricity. However, since 2002, the number of customers on Fuel Direct for both fuels has remained relatively static. In 2008 suppliers reported an increase of 1,000 electricity customers on Fuel Direct and a reduction of 2,000 gas customers, against 2007 figures.

Chart 20: Number of customers (thousands) on Fuel Direct



2.22. Ofgem has worked with DWP, suppliers and consumer advice agencies to highlight the importance of Fuel Direct. We continue to support its availability as an important budgeting and repayment tool for vulnerable customers on low incomes and we will continue to monitor trends in use. We are pleased that the ERA are taking forward discussions with DWP about future plans for Fuel Direct.

Suppliers' voluntary social programmes

2.23. In the 2008 Budget, the Chancellor announced an increase in suppliers' collective expenditure on voluntary social programmes to at least £150m a year by 2011. Government requested that Ofgem lead a process to determine areas of spend for inclusion in quantifying suppliers' expenditure targets and to set up a mechanism for ongoing monitoring and evaluation of suppliers' obligations to meet their individual targets.

2.24. In July 2008 we published guidance[8] setting out the categories of expenditure we would include in reviewing suppliers' performance against their social spend. In

[8] http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=262&refer=Sustainability/SocAction/Suppliers/CSR

August 2009 we reported on suppliers' performance for 2008-2009, the first year of the agreement[9].

2.25. While there is, under their agreement with Government, an obligation on suppliers to meet their individual expenditure targets towards recognised categories of social initiative, these categories differ from those reported here which are mandatory under suppliers' licence conditions. We will continue to report annually on suppliers' spend towards their voluntary social programmes.

9 http://www.ofgem.gov.uk/CustomPages/Pages/Results.aspx?k=social%20spend%20monitoring

Appendices

Index

Appendix 1 - Data Sources

1.1. The data used in this report are collected from suppliers on a quarterly and annual basis. The statistics and reports are published on the Ofgem website at http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Pages/SocObMonitor.aspx

1.2. Suppliers submit the data in line with Ofgem guidance set out in Monitoring suppliers' performance in relation to domestic customers, available at http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Monitoring%20Suppliers%20Performance%20Guidance.pdf and data presented in this document should be read in conjunction with this guidance to guard against misinterpretation.

1.3. Once submitted and prior to publication, Ofgem analyses all data submitted. Where trends or statistics are of concern to us, we enter into dialogue with suppliers to qualify these. We then monitor trends closely and take action as required in order to ensure best practice or to courage a change of practice, where necessary.

Appendix 2 – The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.[10]

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly.[11]

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of existing and future consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- the need to secure that all reasonable demands for electricity are met;
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them;[12]
- the need to contribute to the achievement of sustainable development; and
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.[13]

[10] entitled "Gas Supply" and "Electricity Supply" respectively.
[11] However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.
[12] under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- promote efficiency and economy on the part of those licensed[14] under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity; and
- secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- the effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation[15] and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

[13] The Authority may have regard to other descriptions of consumers.
[14] or persons authorised by exemptions to carry on any activity.
[15] Council Regulation (EC) 1/2003