



*Promoting choice and
value for all customers*

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Dear Colleagues,

Domestic suppliers' quarterly social obligations report - Q1 and Q2 2009

Ofgem collects data from domestic suppliers on performance in relation to their social obligations and in areas of operation where vulnerable customers may be affected. This includes monitoring of areas such as debt, disconnection and use of prepayment meters. We use this information to identify areas for future policy work as well as to highlight particular issues of concern with supplier performance.

In quarters one and two of 2009, we are seeing signs of the recession beginning to bite with numbers of customers entering debt repayment arrangements and average debt levels rising. This is consistent with wider trends reported by bodies such as the Citizens Advice Bureau and the Money Advice Trust. Ofgem's work in this area remains a priority for us.

In addition to our regular monitoring, we are currently reviewing suppliers' policies around debt and disconnection. Earlier this month, we published the findings of the first part of this review¹. We intend to publish the second part of the joint review with Consumer Focus in early 2010. This will focus on suppliers' debt management policies and practices and promote best practice amongst suppliers².

Supplier data for January – June 2009

Attached to this letter are the reports for data collected in quarters one (Q1) and two (Q2) of 2009. Full analysis of supplier performance will be set out in our annual statistics report for 2009. We highlight below the key points drawn from the Q1 and Q2 data.

Disconnections

Overall, disconnections during the first two quarters of 2009 have decreased compared with the same quarters of 2008. There has been a 63% decrease in Q1 2009 (down to 684) compared with Q1 2008 and a 28% decrease in Q2 2009 (down to 1,367) compared with Q2 2008. In line with previous years, we have seen an increase in the number of disconnections from Q1 to Q2 2009 reflecting the end of the winter moratorium³.

¹ Review of protection for vulnerable customers from disconnection:

www.ofgem.gov.uk/Sustainability/SocAction/Publications/Pages/Publications.aspx

² Page 33 of the 'Review of protection for vulnerable customers from disconnection' document provides further details about what the review will cover.

³ Standard Licence Condition 27.10-27.11 requires all suppliers to avoid disconnecting certain groups of vulnerable customers during the winter period (October to March).

EDF Energy disconnected a disproportionately higher number of electricity customers compared with all other suppliers in both Q1 and Q2 2009 (77% and 66% of all disconnections respectively). ScottishPower's gas disconnections make up a disproportionately high number of the total gas customers disconnected in Q2 2009 accounting for 58% of all gas customers disconnected. We have written to both of these suppliers to understand the reasons for this and to encourage them to look at their processes to identify areas for further improvements.

A number of other suppliers have ceased disconnecting any customers or restricted disconnecting during the winter months, which has helped keep the overall number of disconnections down.

Debt levels

We have seen a significant increase in the overall number of customers entering new debt repayment arrangements both quarter on quarter and year on year for both fuels. However, the overall number of customers repaying a debt has remained relatively stable compared with the same period in 2008.

The increases we have seen in the number of customers entering new debt repayment arrangements from Q4 2008 to Q2 2009 are likely to reflect seasonal trends as seen in previous years. However, ongoing high energy prices at the end of 2008, the economic downturn and increasing unemployment are likely to be contributing factors in the year on year increases impacting on customers' ability to pay or customers delaying payment of their energy bills.

The average amount of debt owed by gas customers increased by £50 from Q4 2008 to Q2 2009; this has directly affected the number of customers with debt of over £100, over £300 and over £600 brought forward from the previous period.

The fact that the number of customers entering repayment arrangements and levels of debt have increased is unsurprising given the current economic situation. We expect suppliers to deal sympathetically with customers facing payment difficulties and to continue working proactively to tackle debt problems at an early stage to avoid the build up of debt. Our debt review, due for publication in early 2010, will identify and promote best practice as well as recommending further action where warranted.

Repayment rates

The increase in debt levels described above has led to increasing average weekly repayment rates for credit customers. Compared with the same period in 2008, average weekly repayment rates for gas and electricity have more than doubled. The average weekly repayment rates for PPM customers, however, have increased at a much slower rate.

We have continuing concerns over the level of the repayment rates customers are being required to pay. We have stressed previously that suppliers are obligated under their licence conditions to consider a customers ability to pay when discussing repayment rates. We will be investigating further whether suppliers' policies are compliant as part of the second stage of the debt and disconnection review.

Prepayment meters (PPMs)

Overall, the total number of customers paying for their energy using a PPM has remained stable with 14% of electricity and 11% of gas customers using this method in Q2 2009. The total number of customers in debt using a PPM has decreased overall for both electricity and gas, however the number of gas PPMs installed for debt has increased significantly in Q2 2009.

Ofgem recognises concerns around the increasing numbers of PPMs installed, particularly for debt, given that these typically attract higher tariff rates. Our energy supply markets probe has sought to ensure that these differentials are cost reflective and, since the probe began, more than £300m has been taken off the premiums paid by customers, including PPM customers. New licence conditions to address unfair price differentials for domestic customers came into effect from 1 September 2009⁴ and we will be monitoring the suppliers' compliance with these obligations going forwards.

We will continue to monitor suppliers' performance across all these areas paying particular attention to supplier's disconnections performance over the coming quarters and to debt levels given the current economic climate. We strongly urge all suppliers to maintain a strong focus in this area particularly as we are now entering the colder winter months and to do all they can to assist their customers, particularly those who are vulnerable, to manage their energy bills.

Yours faithfully

Maxine Frerk
Partner, Sustainable Development

⁴ Energy Supply Probe - Proposed Retail Market Remedies Ref: 99/09:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=199&refer=Markets/RetMkts/ensuppro>