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*Promoting choice and value for  
all gas and electricity customers*

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Dear Colleagues,

### **Domestic suppliers' quarterly social obligations report – Q3 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.

Ofgem is considering undertaking a short review of the data it collects as part of domestic suppliers' performance in relation to their social obligations. We would appreciate views from suppliers, consumer representatives and other stakeholders about the data we currently collect and whether there are elements of performance that we could better capture through our social obligation monitoring. Views, including a rationale for any suggested changes, would be appreciated by 5 March 2010.

### **Supplier data for July – September 2009**

Attached to this letter is the report for data collected in quarter three (Q3) of 2009. Full analysis of supplier performance against their social obligations for 2009 will be set out in our annual report, due to be published in the spring. We highlight below the key points drawn from the Q3 data.

#### Disconnections

Overall, disconnection levels have decreased since Q2 2009 and are 7% lower in electricity and 3% lower in gas than they were in Q3 last year.

EDF Energy's and Scottish Power's disconnection levels for electricity and gas respectively are still disproportionately high compared with other suppliers. EDF Energy's number of electricity disconnections is the highest among all suppliers this quarter, although it remains very similar to Q3 last year. Scottish Power's gas disconnection figures for this quarter have increased by 39% compared to Q3 last year, giving them the highest number of gas disconnections among all suppliers this quarter.

As outlined in previous reports, we have written to EDF Energy and Scottish Power about these trends and they have told us that one of the underlying reasons has been the inability to install some PPMs for safety reasons. As part of our debt review, which will be published shortly, we have looked at suppliers' policies in relation to what they do when they are unable to install a PPM. This has involved identifying a number of best practice examples and we will be looking to other suppliers, particularly Scottish Power, to consider what more they can do in this area.

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npower's gas and electricity disconnections are also higher than the same period last year. They have informed us that this is reflective of the re-commencement of npower's disconnections activity in summer 2009 after stopping in mid-November 2008 and the consequent build up of potential disconnection cases.

In our review of vulnerable disconnections, published in October 2009, we sought views on clarificatory changes to existing licence conditions that would make clear that suppliers are expected to be proactive in seeking to ascertain the circumstances of a customer before making a disconnection in winter and to reconnect vulnerable customers ahead of the winter. Following responses to the consultation, Ofgem will shortly publish its views and consult on its next steps.

Ofgem will also be writing to suppliers to outline the best practice examples we highlighted in the report and asking those suppliers that are not operating to best practice to do more in this area.

### Debt levels

The total number of customers repaying a debt continues to remain relatively stable compared to the same period last year. However, some suppliers have experienced significant increases in the number of customers repaying a gas debt compared to Q3 last year, in particular British Gas saw a 27% increase, E.ON a 21% increase and SSE a 45% increase. These increases are likely to be the combined effects of high gas prices and the recession.

Despite the stability of the overall number of customers repaying a debt, Q3 has seen an increase in the number of customers entering into new debt repayment arrangements for both fuels since last quarter (13% for electricity and 21% for gas) and a very significant increase since the same period last year (105% for electricity and 149% for gas). This could be reflective of an increase in the number of customers entering debt for the first time due to the recession.

The average level of debt per customer has remained similar to Q2 2009 reflecting the overall pattern of higher average debt levels this year compared with last year. The average level of debt this quarter is 20% higher than in Q3 last year. There is also an increase in the number of people with debts over £600, particularly for gas which saw an 18% increase in Q3 2009 compared to Q2.

The increases in the number of customers repaying gas debts and entering into new debt repayment arrangements this quarter reinforces the importance of Ofgem's role in reviewing supplier's debt management policies and practices, particularly in the current economic climate. Ofgem's latest findings in this area are due to be published in our debt review early this year.

### Repayment Rates

Overall, average weekly repayment rates for non-PPM customers have remained similar to last quarter and have increased slightly for PPM customers. However, as outlined in our report for Q1 and Q2 2009, repayment rates this year are considerably higher than last year. This is the case in particular for gas PPM customers who have seen a 36% increase in repayment rates since the same period last year.

Some suppliers' repayment rates for PPM customers, particularly British Gas and Scottish Power, remain significantly higher than those for non-PPM customers.

As outlined in our report for Q1 and Q2 2009, 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 customer's ability to pay when discussing repayment rates.

As part of Ofgem's debt review, we have been investigating suppliers' policies and practices in relation to considering customers' ability to pay. Related to our work in this area, Ofgem is formally investigating British Gas' approach to considering customers' ability to pay when determining repayment rates. Following our review, it may be necessary to undertake similar investigations of other suppliers.

#### Prepayment Meters (PPMs)

Overall, the percentage of electricity customers paying for energy by PPM remains stable at 14%, while the percentage of gas customers paying through a PPM has increased slightly from 11.1% in Q3 2008 to 11.6% in Q3 2009. The number of PPMs installed this quarter for the purpose of recovering debt has risen by 27% since Q3 2008 (25,000 extra installed), which is perhaps reflective of the increasing number of customers entering debt repayment arrangements this quarter.

Ofgem recognises concerns around the increasing numbers of PPMs installed 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. As of 1 September 2009, Ofgem introduced new licence conditions to address unfair price differentials for domestic customers. Ofgem is keeping under review the differences in charges for different payment methods and will take action if these differences are found to not be cost reflective.

#### Conclusion

We will continue to monitor suppliers' performance across all these areas paying particular attention to repayment rates, the number of customers entering into new debt repayment arrangements and the level of suppliers' disconnections over the coming months. Given the current economic climate and colder winter months we strongly urge all suppliers to do all they can to assist their customers, particularly those who are vulnerable, to manage their energy bills.

As mentioned previously, Ofgem has been undertaking a review of suppliers' debt management policies and practices. We are due to report on the outcomes and next steps from this review shortly.

Yours faithfully,

Maxine Frerk  
**Partner, Sustainable Development**