

Review of suppliers' approaches to debt management and prevention

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Overview:

This review was carried out jointly with Consumer Focus, as part of our wider project looking at debt and disconnection. It follows our joint review of protection for vulnerable customers from disconnection published in October 2009.

We have noted many examples of good practice amongst suppliers and welcome their efforts to assist their customers in these challenging economic times. However, we have identified a number of areas of concern, particularly regarding the extent to which suppliers take customers' individual circumstances into account when determining their ability to repay debt. We have developed some key Principles for assessing ability to pay which suppliers should use to address these problems. We will take application of these Principles into account when considering suppliers' adherence to their licence obligations in this area and stand ready to take enforcement action where suppliers are in breach.

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Context

Ofgem's principal objective is to protect the interests of existing and future gas and electricity consumers, wherever appropriate by promoting effective competition. In carrying out our functions we must also have regard to, amongst other things, the interests of vulnerable consumers, including those who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.

Ofgem's Social Action Strategy describes how we seek to meet our social responsibilities and help Government to tackle fuel poverty. This review, along with our review of protection for vulnerable customers from disconnection, is a corporate strategy deliverable and a key part of Ofgem's Social Action Strategy for 2009-10.

Associated Documents

- Review of protection for vulnerable customers from disconnection, October 2009
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=139&refer=Sustainability/SocAction/Publications>
- Social Action Strategy 2009-10 Update, Ofgem, June 2009
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=50&refer=Sustainability/SocAction>
- Debt and disconnection best practice review, Ofgem, January 2008
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=103&refer=Sustainability/SocAction/Publications>
- Preventing debt and disconnection good practice guidelines, Ofgem and energywatch, January 2003
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=100&refer=Sustainability/SocAction/Publications>

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Summary

The focus of this review has been to identify how suppliers are helping their customers who are facing increasing levels of general and energy related indebtedness in these challenging economic times. This report outlines Ofgem's findings, highlighting good practice and areas where further attention is warranted. Following publication of Ofgem's review of vulnerable disconnections in October 2009, it completes Ofgem's and Consumer Focus' debt and disconnection review. As well as the information we have gained from suppliers through responses to our request and visits, our research with customers new to debt and consumer advisors from Citizens Advice (CAB) and Money Advice Trust (MAT) have been key to understanding the experiences of customers dealing with suppliers on debt matters.

Whilst the number of customers repaying energy debt has remained largely unchanged, the amount customers owe has risen particularly over the last 18 months as customers try to manage on increasingly limited resources. We recognise the genuine efforts suppliers have made to assist customers against this backdrop. However, we do have concerns in particular regarding the way suppliers take into account a customer's ability to pay when agreeing debt repayment rates, which has resulted in significant increases in average weekly repayments and the way charges for disconnection and reconnection are applied.

Our main concern regarding ability to pay is the inconsistent approach taken to understanding the customer's circumstances and offering an appropriate repayment amount and method tailored to those circumstances. Our research indicates that this inconsistency applies not only across suppliers but within them depending on the approach taken by the individual customer service agent. We are concerned that there does not appear to be any systematic way of gathering information about the customer's circumstances and it is unclear to us how an appropriate payment amount or method, as required under the licence, can be offered without this understanding. We have identified a number of key Principles suppliers should consider to ensure they are properly and proactively taking account of a customer's ability to pay. We intend to take these into account when considering suppliers adherence to their supply licence. We stand ready to take enforcement action where suppliers are in breach. We have since discussed these Principles in detail with suppliers at our recent stakeholder roundtable event hosted jointly with Citizens Advice. We welcome the commitment given by suppliers at that event to applying the key Principles.

We are also concerned to ensure that customers who are struggling are not unfairly impacted by high disconnection and reconnection charges. As a starting point suppliers must ensure their charging is transparent and be proactive in ensuring the customer understands the charges they could face, ensuring that they comply with relevant legislative and other requirements. We will be keeping under review the cost reflectivity of these charges, whether the communication about these charges are clear enough and other aspects relevant to compliance with general consumer protection legislation. In addition, we are calling on suppliers to use their discretion to waive or reduce charges in circumstances of genuine hardship. We may consider stronger measures if suppliers do not act responsibly.

Early contact is becoming an increasingly important part of suppliers' relationships with customers. Those struggling to pay bills should be offered help and appropriate solutions before the debt becomes unmanageable. Whilst we are pleased that suppliers are taking a more proactive approach to prevent and manage debt, more needs to be done; identifying those who need help is a key part of the proactive follow-up process. Our research indicates that it is often the customer who initiates contact some way into the debt process. We expect suppliers to step up activity so that those who need help receive it as soon as possible, including early referral to broader debt advice. We are encouraged that some suppliers are becoming increasingly sophisticated in their efforts to segment customers according to payment history, behaviour and other factors. If done correctly, this should ensure those who cannot pay are identified and given suitable assistance early on.

We have concerns that some suppliers' incentives mechanisms may lead staff to agree inappropriate payment plans or to put customers onto payment methods which are unsuitable and may be in breach of the relevant licence conditions. Incentives for cash collection or for conversion from one payment method to another may have an adverse impact on consumers and in complying with the relevant provisions. Some suppliers have been innovative in the way they incentivise and the form of incentives used to avoid these problems. Suppliers should take this opportunity to review their incentives regimes to ensure that they are not leading to inappropriate outcomes for consumers. We also believe suppliers could do more in terms of monitoring of payment arrangements, and intend to explore this matter further.

We are pleased that suppliers have taken the initiative in expanding the type of payment offerings available to customers in debt. We welcome the way that new and emerging technology, such as internet enabled tariffs, is increasingly being used.

Our review has found that more needs to be done to ensure that Fuel Direct is offered more readily by suppliers. The Energy Retail Association (ERA) and the Department for Work and Pensions (DWP) have recently made attempts to increase understanding of how Fuel Direct works and the eligibility criteria. Consistent with their licence obligations, suppliers must now make sure that customers for whom Fuel Direct is the appropriate payment method are offered it.

We have concerns about some suppliers' practices when they determine whether it is safe and practicable to fit a prepayment meter (PPM) and regarding the fitting of PPMs on Independent Gas Transporter (IGT) networks. We are pleased that some suppliers have overcome the problems associated with these areas but others have more work to do. We will press suppliers to resolve these difficulties and will monitor progress to ensure they do.

The way in which debt is followed up, particularly by debt collectors, is an important matter for suppliers and customers. Information from suppliers indicates that they appear to have detailed processes in place for recruiting debt collection agencies and for managing and monitoring performance against the Office of Fair Trading (OFT) guidance. Whilst reassuring, we expect suppliers to ensure high standards and may review this again should problems arise in future.

1. Introduction

Background to the current review

1.1. In accordance with our principal objective to protect the interests of consumers, Ofgem committed in its 2009-10 Corporate Strategy to carry out a further review of suppliers' debt and disconnection policies and processes. Previous reviews have been carried out jointly with energywatch. This latest review has been undertaken in conjunction with energywatch's successor body Consumer Focus. Information about our earlier reviews can be found in appendix 2.

1.2. In February 2009, Consumer Focus raised concerns that suppliers were disconnecting vulnerable consumers. As a result, we agreed in March to decouple and to fast track the review of vulnerable disconnections from the broader debt review. The conclusions from the review of vulnerable disconnections is summarised in appendix 2.

1.3. This report covers the other elements of the broader debt and disconnection review.

Scope of the debt review

1.4. This review of suppliers' broader debt prevention and management practices is timely. Against a backdrop of economic uncertainty, it is even more important that suppliers do all they can to help customers manage their bills, manage their debt, and avoid disconnections. This is especially true of those who are vulnerable and who may be in need of particular assistance.

1.5. The aim of this work is to review suppliers' debt policies and processes to identify and promote best practice and to recommend further action where it is warranted. We have focussed our initial efforts around four key areas:

- **How suppliers are responding to tighter economic conditions.** This includes their use of debt collectors, segmentation of debt paths, proactive follow-up of debt, and the transparency and reasonableness/lawfulness of charges levied in the debt and disconnection process including those for PPM installation and removal, and charges for call out.
- **How suppliers are dealing holistically with customers to help them avoid and manage debt.** This examines the training staff receive in relation to dealing with customers in debt, how suppliers identify those who need assistance, incentives on their staff, suppliers work with third party advice agencies, and the initiatives suppliers have introduced or have planned to assist their customers.
- **Suppliers' policies and practices for assessing a customer's ability to pay.** This section looks at suppliers' negotiations with customers and how repayment rates are set and monitored.

- **Suppliers' payment method policies.** This includes policies in respect of Fuel Direct, PPM issues such as how suppliers decide if it is 'safe and reasonably practicable' to install a PPM, policies/practices when they are not able to install a PPM, PPM policies on IGT networks, post PPM installation checks and emerging payment methods such as payment cards.

Review process

1.6. Ofgem issued a formal information request to suppliers seeking detailed information on their policies and practices in respect of the key areas referred to above. Having reviewed the responses, Ofgem and Consumer Focus visited all the major suppliers and their debt/credit management teams to gain a better understanding of their practices. This was supplemented by listening into customer telephone calls and direct discussion with frontline staff operating these procedures. We also met with CAB to understand their views on suppliers' debt practices.

1.7. As part of this review, Ofgem appointed Creative Research¹ to undertake qualitative research with customers who are new to debt. This involved 42 in depth interviews with customers and a further 10 in-depth telephone interviews were undertaken with a selection of advisors from CAB, Citizens Advice Scotland (CAS), and MAT experienced in liaising with energy suppliers on behalf of customers. The research sought to understand the experiences of customers who are new to energy debt, including those customers paying through a PPM for the first time, to identify best practice and those processes which cause dissatisfaction. Key findings from the research were:

- Considerable variability in terms of how suppliers were dealing with individual customers, including within the same supplier depending on which member of staff picks up the phone.
- Overall more customers were satisfied with how their debt was dealt with than were dissatisfied; clearly a welcome result. However, in some cases 'satisfaction' ratings reflected more a sense of relief on the customers' part that the problem had been sorted out rather than overt satisfaction with the supplier in terms of the help they received in arranging repayment.
- Neither suppliers nor respondents were proactive in making contact with the other party about the arrears. Even where there were warning signals (cancellations of direct debits, missed payments etc) there was no evidence that suppliers were acting on these.
- There was very little evidence of suppliers offering all of the potentially appropriate repayment methods to customers or that suppliers were exploring with customers in any systematic way their ability to pay when calculating repayment amounts.
- A number of respondents were experiencing financial problems beyond their energy bills and would have benefited from some advice about how to cope.

¹ Creative Research: Falling into Energy Debt for the First Time. The Customer Experience.

- There was little evidence that suppliers were following up with customers once a repayment plan was in place to check if they were finding it manageable, even when there were warning signs that the customers might be struggling.

1.8. A copy of the debt research report has been published alongside this review document and its findings have been taken into account throughout.

Protection for customers in payment difficulties

Supply licence obligations

1.9. Ofgem has previously highlighted that it expects suppliers to proactively identify customers who might be struggling to pay their bills and offer them help and assistance as early as possible to prevent the build up of large and unmanageable levels of debt. Suppliers have obligations set out in their licences which are designed to protect domestic customers who are having or who will have difficulty in paying all or part of their gas/electricity charges. Suppliers must offer such customers the facility to pay by:

- payment deducted at source from a social security benefit received by a customer (Fuel Direct);
- regular instalments calculated in accordance with a customer's ability to pay and paid through a means other than a PPM; and
- payment through a PPM where it is safe and reasonably practicable in all circumstances for the customer to do so.

1.10. Suppliers are also required to take all reasonable steps to ascertain the customer's ability to pay and to take this into account when calculating instalments.

Wider developments since the last review

Ofgem's Market Probe

1.11. In February 2008, Ofgem launched the Energy Supply Probe, a study of the state of the energy supply markets in Great Britain. We published our Initial Findings Report in October 2008 and, following full consultation, Ofgem published in August 2009 a package of measures designed to improve the functioning of the market for all consumers, particularly vulnerable households. They will help customers to get a better deal on their energy and thus assist in reducing any potential debt.

1.12. The probe measures included the introduction of two new licence conditions from 1 September 2009 which require the differences in charges between payment types to be cost reflective, and prohibits other forms of undue discrimination. Suppliers made changes in anticipation of the probe remedies and by December 2008 had removed £300 million of unjustified differentials from PPM and non-gas network tariffs. This should assist low income customers who are disproportionately

high users of PPMs and pay higher prices as a result, and customers not connected to the gas network that are unable to access dual fuel tariffs.

1.13. New licence requirements have been introduced from 18 January 2010 to provide greater protection for indebted customers. When a supplier objects to a customer switching on grounds of debt they will now have to provide them with debt, tariff and energy efficiency advice. If a supplier raises its prices, indebted customers will be given 30 working days in which they can avoid any retrospective application of this price rise by clearing their debts and switching supplier. Suppliers have also been banned from preventing the customer from switching supplier due to an outstanding debt where the debt is a result of the supplier's error, and a new licence condition raises the limit at which PPM customers in debt can switch from £100 to £200 if they agree the debt can be moved to the new supplier. As vulnerable customers are disproportionately represented among those in debt, this could open up the opportunity for them to get a cheaper energy deal.

1.14. Two further probe measures are designed to increase the number of customers who engage in the market, particularly vulnerable customers, and to ensure that they have all the information they need to make well informed decisions. Low income customers are more likely to switch as a result of direct sales activity. As a result they are less likely to compare a range of offers and our probe found that many who decide to change supplier were switching to a more expensive tariff. Our strengthened rules on doorstep sales require suppliers to provide written estimates and sales literature that is clear, accurate and easy to understand. From July 2010, suppliers will also be required to provide better information on bills - tariff name, consumption over the last 12 months in kilowatt hours (if the customer has been with the same supplier for that period), projected cost over the next 12 months - and an annual statement with additional information including a reminder that the customer can switch.

1.15. Ofgem has also introduced overarching standards of conduct for suppliers. These state that suppliers must not sell products or services that customers do not fully understand or that are inappropriate for their needs and circumstances or offer products that are unnecessarily complex or confusing. These standards will help to drive improvements. While not directly enforceable we will be monitoring suppliers' performance against the standards and highlighting examples of good and bad practice.

Smart meters

1.16. Ofgem is to play a key role in introducing smart meters to all 26 million households and small businesses in Britain by 2020. Smart meters can help empower consumers with better information to manage energy use and help reduce energy costs and carbon emissions. Smart meters should improve the quality of service available to PPM customers and reduce the metering and cost-to-serve differences that currently exist. Ofgem will be ensuring that consumers' interests and benefits remain at the heart of the delivery of smart meters and that consumer protection keeps pace with technological change.

New consumer arrangements

1.17. Since the last review the Consumers, Estate Agents and Redress Act 2007 has seen the replacement of the consumer body energywatch with a three tier system comprising: Consumer Direct providing information and advice; a statutory redress scheme (the Energy Ombudsman) approved by the Authority (Ofgem) covering all energy complaints; and a new advocacy body (the National Consumer Council - Consumer Focus) dealing with individual complaints relating to disconnection or involving a vulnerable customer. To support this new system Ofgem introduced complaints handling standards which apply to complaints from domestic customers and micro businesses about suppliers and network businesses.

1.18. energywatch provided an important source of advice and assistance to consumers experiencing difficulty with their supplier. In the new arrangements suppliers have been given responsibility to deal with their customers effectively. This places greater emphasis on suppliers to be proactive to identify and assist those customers who may be struggling to pay their bills. Consumer Direct has provided information and advice to nearly 6,000 consumers contacting them about debt and disconnection issues in the first 16 months of the new arrangements, whilst 2,300 customers have required the direct assistance of Consumer Focus.

New consumer protection regulations

1.19. Since the last review, the Consumer Protection from Unfair Trading Regulations 2008 ("CPRs") have been enacted, and came into force on 26 May 2008. The CPRs prohibit traders from engaging in certain misleading and aggressive practices in selling their products. Whenever a consumer may take a decision to enter into or not enter into an agreement on the basis of the conduct of or information provided by a supplier, the supplier will need to ensure that its conduct or information is not misleading under the CPRs, whether by act or omission. We note in particular that under the CPRs it is possible for information to be misleading even where everything stated in it is entirely true if, due to its presentation, it may deceive a consumer or where information which needs to be provided to allow a consumer to make an informed decision is omitted or hidden. Ofgem has powers to prevent suppliers from engaging in such activities under the Enterprise Act 2002.

2. Consumer Debt

Chapter summary

This chapter examines the most recent trends in energy debt comparing them with energy debt levels since 2006 and notes suppliers own forecasts of debt for their customers which may arise as a result of the tighter economic conditions.

Trends in consumer debt

2.1. Research by the New Policy Institute for the Joseph Rowntree Foundation ('Monitoring poverty and social exclusion 2009') found that 25% of working-age adults in workless households are in arrears on at least one of their household bills. This compares with around 10% for working-age adults in part-time working households and 5% for those in full time work. Of this 25%, around half are one bill in arrears, a quarter are two bills in arrears and another quarter are three or more bills in arrears. Similar proportions apply to those in arrears in working households.

2.2. More generally, research published in February 2009 by YouGov found that 19% of customers had no financial difficulties 12 months ago but were now experiencing them, and 41% who were in difficulty 12 months ago were now in an even worse position. This upward trend is reflected in the number of contacts advice agencies have received about debt. National Debt Line (NDL) reported a 150% increase in calls from June 2007 to 41,683 in June 2009.

2.3. Calls to NDL regarding fuel arrears increased from 2.8% of calls in January 2003 to 11.3% in June 2009. This level of activity is mirrored in the number of contacts Citizens Advice has received. In October 2009, Citizens Advice reported an increase of 46% in the number of clients with energy debts seeking their assistance compared to the year before, over 80% of whom were earning under half of the average income. In the 12 months to June 2009 nearly 100,000 clients had received assistance from Citizens Advice on fuel debt matters.

2.4. Problems with increasing debt are mirrored in other sectors. Citizens Advice dealt with 60,000 problems related to telecoms debt in 2008/09, up from circa 43,000 in 2005/06. In the water industry the total number of households reported with some level of revenue outstanding (from 3-48+ months) in 2007-08 was more than five million² and household revenue outstanding for more than 12 months increased by 12% between 2006-07 and 2007-08, from £599 million to £674 million.

Trends in energy debt

2.5. Our social obligations monitoring data³ shows that the overall number of customers repaying energy debt⁴ has remained more or less static. However, in

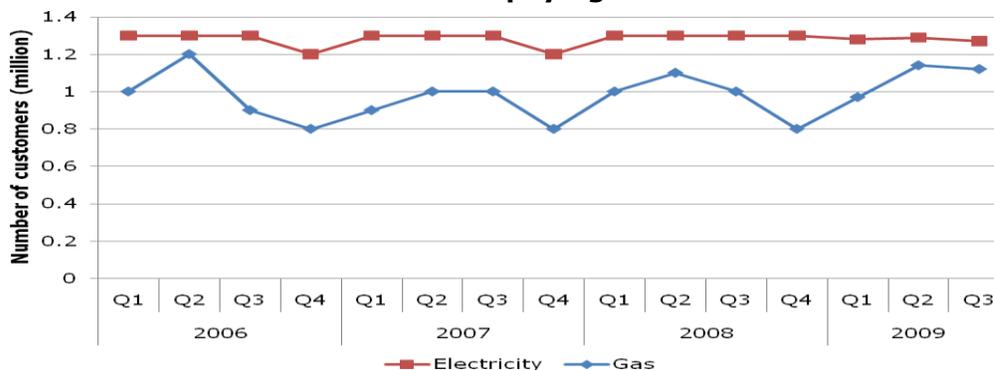
² http://www.ofwat.gov.uk/consumerissues/ltr_rd1908_householddebtapp1.pdf

³ Monitoring Company Performance – Quarter 3 2009

common with increasing levels of consumer debt, it appears that the effects of the recession coupled with increases in energy prices may be being reflected in the amount customers owe for their energy supply. Against this background, it would appear that a small but increasing proportion of customers cannot afford to pay for their energy supply.

2.6. Chart 1 illustrates that the number of customers repaying an electricity debt has been fairly stable since mid-2005. Gas meanwhile has shown some fluctuation in the number of customers in debt. Whilst this may be accounted for in part by the seasonal pattern as customers start to pay for increased gas used over the winter months, we note that the number in debt for Q3 2009 is higher than Q3 2008.

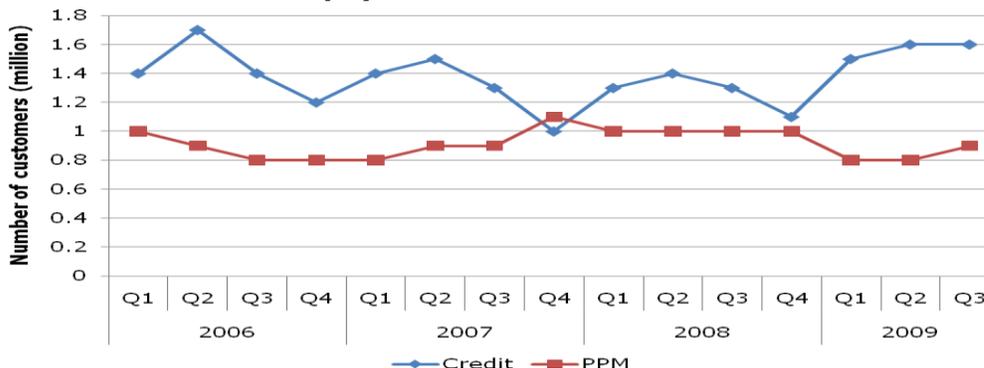
Chart 1 – Number of customers repaying a debt



2.7. As of June 2009, almost 5% of electricity customers and just over 5% of gas customers were repaying a debt to their energy supplier. Chart 2 shows that of these, 33% are PPM customers whilst 67% are credit customers (ie not repaying by PPM). The number of customers repaying by PPM has fallen back to levels last seen in 2006/2007. Whilst it is too soon to identify this as a trend it may mean that suppliers are more willing to offer and accept other methods of repayment.

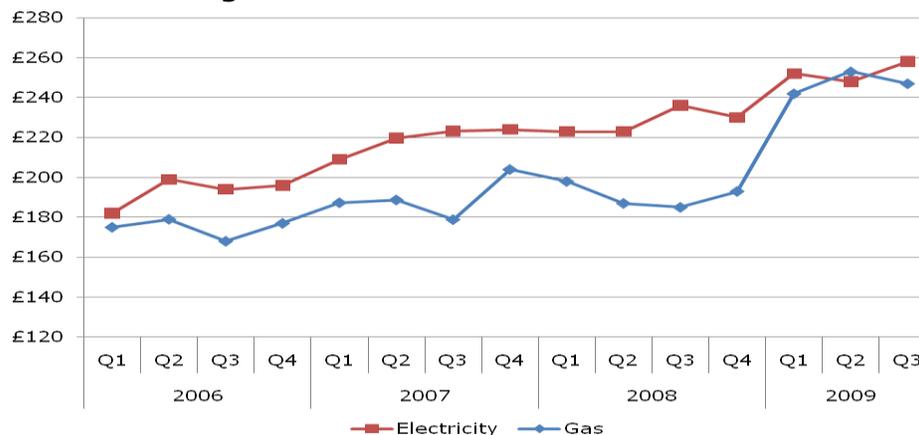
⁴ 'Debt' in this document refers either to customers who have a PPM set to collect a debt or customers who are on a rescheduled debt repayment programme due to last longer than 91 days/13 weeks. Direct debit customers would only fall within this definition if they have specifically set up a direct debit in order to repay a debt.

Chart 2 – Method of repayment



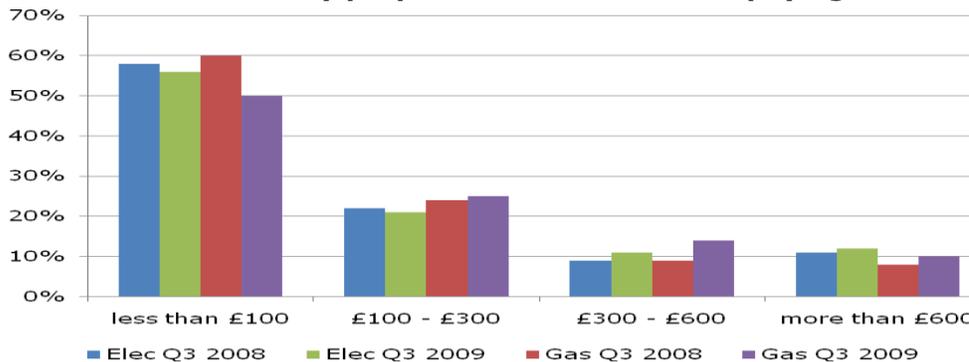
2.8. Whilst the number of customers in debt has remained largely unchanged, it appears that the effects of the recession may be being felt in the amount customers owe. This could be the result of customers delaying payment of energy bills as they seek to juggle their finances and the debt to be recovered grows as a consequence. As chart 3 shows, the average level of debt for these customers has continued to increase for both fuels but more markedly so in gas. This may be partly the result of price increases in 2008 feeding through into customers’ winter bills for the first time.

Chart 3 – Average level of customer debt



2.9. There has been an upward shift in the amount owed by individual indebted customers in both fuels but particularly for gas customers. Chart 4 below demonstrates that in quarter three of 2009 half of gas customers in debt now owe less than £100 compared with 60% in the same quarter in 2008. The number of gas customers owing £100-£300 and £300-£600 has increased by 5% and 2% respectively, primarily for the reasons outlined above. The majority of electricity customers (55%) owe less than £100, a slight fall from 57% in quarter three 2008, whilst those owing £100-£300 and £300-£600 have both increased marginally.

Chart 4 – Debt levels by proportion of customers repaying



2.10. Charts 5 and 6 highlight average weekly repayment rates and term for credit and PPM customers. The number of weeks over which repayments are recovered for credit customers decreased slightly in 2009. We note that the average weekly repayment rate has increased, noticeably so for the first three quarters of 2009. PPM customers have historically had higher weekly recovery rates as PPMs are often installed late in the debt process or after a number of debt arrangements have failed. However, we have noted a steady increase in the rate for both fuels, but particularly in gas, in recent quarters.

Chart 5 – Credit average weekly repayment rates and repayment term

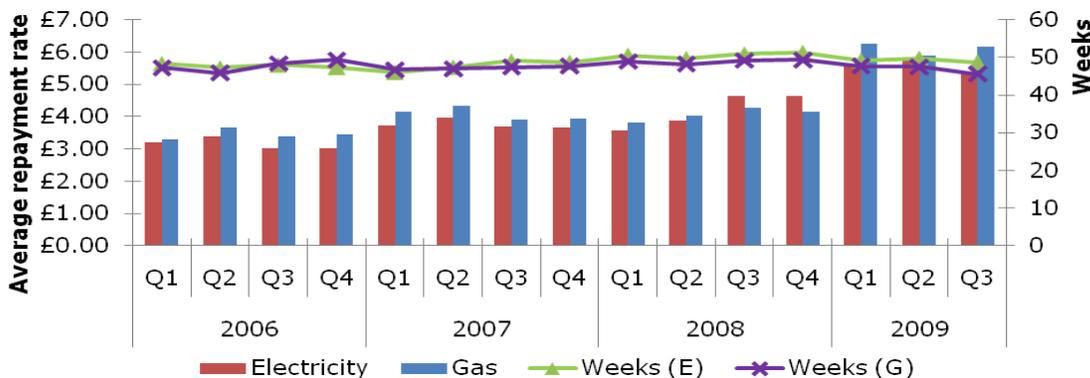
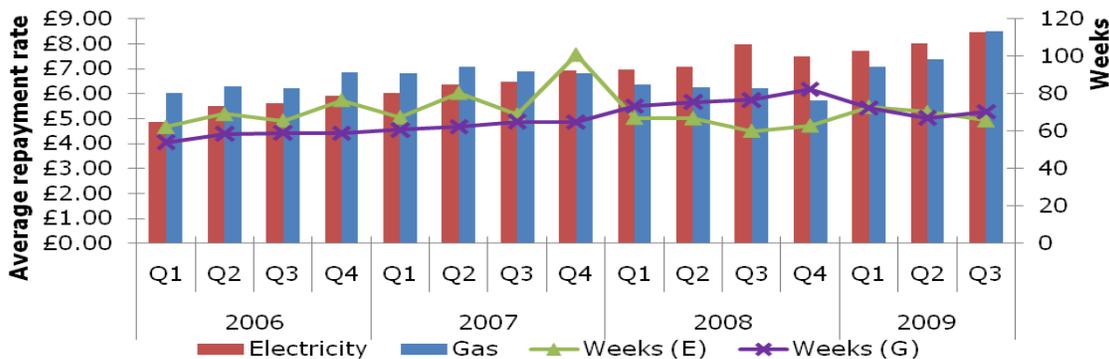


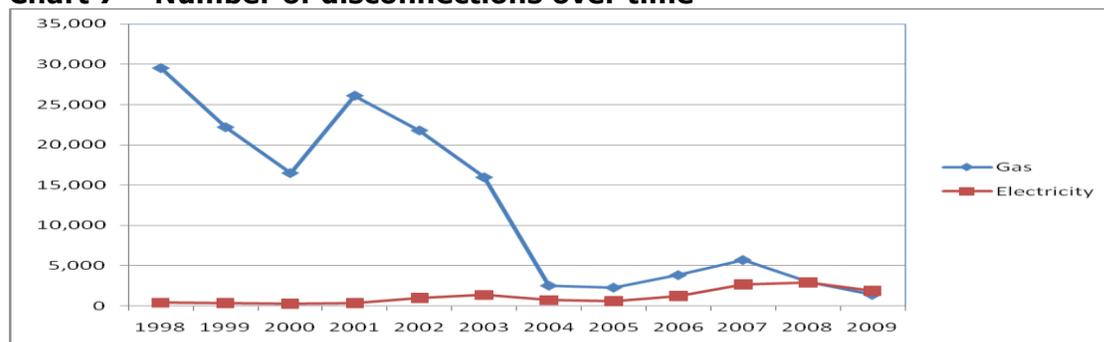
Chart 6 - PPM average weekly repayment rates and repayment term



2.11. Suppliers have licence obligations which require them to take all reasonable steps to ascertain a customer's ability to pay. This involves them proactively exploring and agreeing with the customer how much they can afford to pay. We are concerned about the extent to which suppliers explore ability to pay with customers, and examine suppliers' recovery rates and practices in greater detail in chapter five.

2.12. Chart 7 shows recent trends in gas and electricity disconnections. Overall, disconnections remain at historically low levels, down from around 30,000 in 1998 to less than 6,000 in 2008 (around 0.01% of customers). The 2008 figure represents a 30% decrease from 2007. From 2001 until 2005, the total number of customers disconnected for non-payment decreased sharply. Key reasons were increased pressure on suppliers only to disconnect as a last resort, an increase in the number of PPMs installed to recover debt as an alternative to disconnection, the decision by one supplier to cease domestic disconnections following the Bates case, and the introduction of the ERA safety net arrangements.

Chart 7 – Number of disconnections over time



Supplier forecasts of debt

2.13. Our customer research found that the majority of those interviewed who were new to debt were on a limited income, many in receipt of a form of benefit, and that their personal circumstances were the main reason for their debt. It is clear that suppliers are not immune from the effects of the recession and the increase in the levels of debt amongst the general population. We expect suppliers to consider how this will impact upon them and the way in which they deal with their customers.

2.14. Some suppliers have tried to proactively anticipate the level of debt for their customers. For example, Scottish Power has engaged with Experian to predict whether and to what extent domestic debt will rise. Other suppliers anticipate the level of increase in debt to be smaller amounts outstanding for longer periods.

2.15. We are concerned about the apparent lack of activity from some suppliers in anticipating trends in debt levels given the adverse impact this could have on achieving compliance and best practice in this area. **Suppliers must look critically at this issue in order to plan effectively how to meet the needs of their customers**, for example through the introduction of innovative products or earlier identification of customers in difficulty.

3. Suppliers' debt policies

Chapter summary
 This chapter highlights the key elements of the main six suppliers' paths for following up customers' debts. It considers how those debt paths have changed, the charges customers incur as part of the debt follow-up process, and the use of external debt collection agents.

Suppliers' debt paths

3.1. In our last review in January 2008 we were able to identify key stages in suppliers' debt paths and the time periods within which these activities take place. We have replicated these key steps in the chart below. The main change that we have seen in comparison to the chart in January 2008 is an earlier progression by some suppliers to the first call stage and final demand.

Chart 8 – Suppliers' debt paths

Pre-bill actions	<ul style="list-style-type: none"> •EDFE - account monitored until first bill issued •SSE - first bill escalated follow-up.
Bill issued	•Day 1
Reminder notice	•Day 10 - 28
Second Reminder notice	•Day 20 - 42
Outbound call	•Day 17 - 50 (first call)
Final demand notice	•Day 14 - 71
Pre-disconnection visit	•Day 50 - 133
Pre-disconnection letter	•Day 35 - 106
Human Rights letter	•Day 67 - 176
Warrant	•Day 67 - 210
Disconnection (no known vulnerable customers disconnected)	•Day 81 - 245
Post disconnection follow-up	• 1 - 10 days of disconnection

3.2. We expect suppliers to make efforts early in the process to identify customers who may be experiencing payment difficulty, as required under their licence conditions. Segmentation of customers into different debt paths, for example tailored debt paths with appropriate communication for vulnerable customers, is a key part of the debt follow-up process. However, any segmentation policy must be appropriate and reflect compliance with the licence conditions. For example, suppliers must take customers' individual circumstances fully into account in any 'fast track' process.

3.3. In our review of vulnerable disconnections we highlighted many of the good practices employed by suppliers in tailoring their debt paths to meet the needs of their vulnerable customers. Whilst the above chart shows the main activities common to all suppliers, many suppliers have adapted their activities further to enable different approaches to be employed according to the customer's payment history which we welcome. Treating customers as individuals rather than taking 'a one size fits all' approach should help suppliers target help where it is needed. We consider that early tailored intervention will help suppliers to identify those customers who are struggling to pay their bills and provide an opportunity to reach a payment solution before their debt grows further. Failure to take effective follow-up action also means that customers in general bear higher costs of managing debt. How suppliers are endeavouring to tailor their debt paths is summarised below.

3.4. E.ON has grouped customers into a number of different categories. Progress along the debt path differs so that customers in particular categories will receive quicker debt follow-up. We are pleased that the paths are flexible and responsive to changes so that customers can move between categories depending on their recent payment history. SSE has a number of tailored debt paths with those having a poor payment history moving through it more quickly. We welcome SSE's reduction in the value limit before customers receive a telephone call or collections visit to offer help.

3.5. Progress along British Gas' debt path is dependant on the amount and age of the debt outstanding. British Gas is currently reviewing its debt processes through its Project Evolution. As part of this it is trialling a number of different debt paths depending on the 'risk' of the customer, with high risk customers following a swifter debt path aimed at identifying problems early and tailoring the help they need to their individual circumstances, and extended debt paths for lower risk customers.

3.6. Both Scottish Power and EDF Energy vary their interventions on an individual basis according to risk, with customers in this category receiving accelerated follow-up, whilst progress through npower's debt path is driven predominately by the value of the debt outstanding. We understand that both npower and EDF Energy plan to introduce more individually tailored processes to following up debt.

Proactive contact with customers

3.7. The importance of debt prevention and proactive action is acknowledged by suppliers as a key part of their debt management processes. Suppliers should take preventative action to help customers avoid debt by minimising billing errors and providing timely and accurate bills. Most suppliers attempt to read meters every six months, although two (E.ON and British Gas) attempt to do so every quarter. It is important that estimated accounts are clearly signed as such and customers are told about the importance of providing their own readings and are encouraged to do so.

3.8. Proactive contact with customers is a key element of the debt process. Suppliers' literature typically asks customers to contact them if they have problems. However, we are particularly keen that suppliers should not rely on customers making contact but should proactively identify those customers who are having

difficulty in paying their bills as early as possible in order to provide customers with an appropriate solution and help prevent them falling into or further into debt. Suppliers have indicated that they are taking an increasingly proactive approach and are trying to contact the customer, particularly by telephone, much earlier in the bill follow-up process. Many suppliers have increased their outbound call activity using either call centre staff or automated reminders, varying contact days and times in order to obtain a response. For example, EDF Energy and SSE target up to 100,000 outbound calls per month.

3.9. In our research customers reported that it was they, rather than the supplier, who made the proactive telephone contact, often after receipt of the red final demand or disconnection letter. This emphasises the need for proactive contact on the part of the supplier above and beyond pro forma letters, who should be alert to early warning signs, as an integral part of the debt prevention and management process.

3.10. We believe it is key that suppliers approach these contacts sensitively and that it is not perceived by customers to solely be a call chasing payment but is one designed to identify and provide assistance with problems. We understand that Barclays Bank has taken a similar proactive approach in the financial sector, expanding their pre-arrears support to customers. This involves making a number of contacts to customers who are not in arrears but who have been identified as potentially having difficulty and offering help. Research by Barclays amongst those who had received such contact found that almost 80% had reported an improvement in their financial situation as a result.

3.11. Whilst most suppliers are contacting customers earlier in the process, npower delays its outbound call activity to day 46, the point from which it considers it gets the best response from its customers.

3.12. As noted above, progress along the supplier's debt path is often dictated by the level of debt. Some suppliers will not progress debt follow-up beyond a particular point until the debt outstanding reaches a set amount. Whilst we welcome these suppliers' reluctance to increase customers' indebtedness by undertaking activities which will incur additional charges, for example a warrant visit, we are keen that other proactive debt follow-up continues. Customers should continue to be offered help and not left until the debt becomes larger and possibly unmanageable.

3.13. Our recent customer research indicated that over 15% of customer telephone numbers provided by suppliers for the research were incorrect or no longer in use. **We urge suppliers to improve the quality of contact information held such as telephone numbers and email addresses to permit prompt and accurate follow-up action.**

3.14. Aside from the traditional letter follow-up of debt, suppliers have continued to develop other methods of communicating with customers in the debt process. Many already use text messaging to remind customers about overdue bills. SSE and British

Gas also use voice messaging, and the use of email is becoming more prevalent. npower use voice clips and expects its investment in a new billing system this year will enable it to include more channels of communication with customers such as text, email. EDF Energy currently use automated messaging including SMS texting.

3.15. E.ON is rolling out the use of hand held units for its staff in the field. This links directly into the company's database and provides live information about the customer's account. This real time information allows agents to create an accurate up to the minute bill so that the customer is immediately aware of their debt situation and can discuss appropriate repayment on that basis. British Gas has also rolled out this technology in two areas with plans underway for a third.

3.16. We welcome suppliers' efforts to tailor follow-up in order to identify and assist those in payment difficulty as soon as possible. **Suppliers must focus greater efforts on early proactive follow-up which offers prompt help to customers struggling with energy debt.** We also encourage suppliers to seek feedback from customers to see whether they can tailor their communications further; for example gathering feedback from customers who have progressed to disconnection or on warrant to PPM installation to try to understand what type of communication might have elicited a response at an earlier stage.

Charges levied by suppliers in their debt and disconnection procedures

3.17. As part of this review, Ofgem has collected information from suppliers concerning the level of charges they apply to customers for disconnection and reconnection, installation and removal of a PPM, and issuing replacement lost cards and keys for PPMs. We have also looked at the transparency of these charges.

Charges for disconnection and reconnection

3.18. Currently each of the six major suppliers charge for at least some elements of the disconnection and reconnection process (such as getting a warrant, disconnecting the supply and reconnecting). While this approach could aid cost reflectivity and provides an incentive for those who can pay to do so on a timely basis, keeping costs down for customers overall, there are real concerns that it could impact heavily on those customers that are already struggling to pay their energy bills, making their position unsustainable. The following sets out the approaches of each supplier and some concerns identified. We intend to keep this issue under review over the coming year and may consider stronger measures if we do not believe suppliers are acting within the appropriate legal framework and responsibly.

3.19. There is a large variation in the charges suppliers levy for disconnecting and reconnecting a customer's gas or electricity supply; the highest is British Gas, the lowest is EDF Energy. All suppliers have several separate charges relating to the disconnection and reconnection process. For example, British Gas, with the largest number of separate charges, applies charges for visiting the premises prior to getting

a warrant, the warrant letter and court costs, the warrant execution (with another separate charge depending on whether a PPM is fitted) and reconnection. While this may aid cost reflectivity (although it does not ensure it), it could be confusing to the customer. EDF Energy not only has the lowest charges but also has a relatively straightforward charging structure. They apply charges at three stages of the disconnection and reconnection process. **Suppliers must ensure that they make their charging structures easy for the customer to understand and that they are proactive in ensuring the customer understands all the charges they could face.**

3.20. Suppliers informed us that customers are made aware of these charges through their letters regarding the recovery of the debt. However, as noted above, some suppliers' charging is complex and this may make it difficult for customers to understand what they will/could be charged and how to avoid any charges. This is a particular concern for customers with low levels of literacy, including those with English as a second language. Suppliers need to ensure that these letters warning of additional charges follow best practice on clear communication as set out in our previous debt and disconnection work⁵. **Suppliers must ensure that their communications on charging for activities relating to disconnection and reconnection are sufficiently clear.** This is to ensure that customers fully understand the additional charges they could face at each stage of the process and the importance of contacting their supplier if they will not be able to make the payment demanded. A failure properly to inform customers about charges under their agreements may amount to a breach of the CPRs.

3.21. In order to be compliant with the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCRs), any additional charges which are imposed on a customer due to his failing to comply with the terms of his contract must be proportionate. In addition, in determining the fairness of such a term, the degree to which it was made clear to the customer that the contract would contain that term will be relevant. There are other aspects of the UTCCRs that could apply in particular situations.

3.22. There is a large amount of variation in the level of costs suppliers' incur which suggests suppliers may be allocating the costs differently across their customer base. We do not have sufficient information to undertake a full assessment of whether the charges are cost reflective in each case. **Ofgem will keep under review the costs suppliers incur for these activities, the charges they levy and how this relates to a supplier's price differential between standard credit and other payment methods.**

3.23. As part of the ERA's Safety Net, all suppliers have agreed to consider reducing or removing the charges where the customer is vulnerable. **Ofgem expects suppliers to proactively seek out this information when discussing the**

⁵ Best practice on clear communication is outlined in chapter 4 of our debt and disconnection review published January 2008. A summary report is also available at the following link: www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Ofgem%20audit%20final%20summary%20report%20-%20Clear%20Consultants.pdf

customer's ability to pay and urges suppliers to use their discretion to reduce or waive the charges entirely in cases of genuine hardship, where the customer is vulnerable or has clearly not understood the supplier's communications.

3.24. Where the customer is not vulnerable, all suppliers add the charges for disconnection and reconnection to a PPM if installed. npower adds the charges to the payment arrangement for recovering the debt, although it requires the customer to agree to pay the charges along with the debt before reconnection. EDF Energy, British Gas and Scottish Power say they seek payment of the charges before reconnecting if a PPM has not been installed. **Ofgem is concerned about this practice and considers that the licence obligation requiring suppliers to take account of ability to pay applies equally to these charges. Thus, suppliers should allow credit customers (as well as PPM) to pay the charges over a period of time, rather than upfront, if they cannot afford it.**

Charges for installation and removal of a PPM

3.25. The following chart shows the charges suppliers' levy on customers for the installation and removal of a PPM. As the table below shows, most suppliers do not charge for the installation of a PPM. British Gas does charge unless the installation of a PPM is being offered to help pay off a debt, and also charge if it is fitted on a warrant. E.ON only charges where the PPM is being fitted on a warrant.

3.26. Three suppliers do not charge for the removal of a PPM (ie a PPM to credit meter exchange), two charge in certain circumstances (such as where the customer has not been with the supplier for very long, there is a debt or the customer has a history of incurring energy debt) and Scottish Power charges except where there is a special need or good prior payment history with them.

Chart 10: Charges for installation and removal of a PPM

	Installation	Removal
British Gas	£90 (no charge if an alternative to disconnection)	No charge
npower	No charge	£60 (no charge in some circumstances)
EDF Energy	No charge	No charge
SSE	No charge	No charge
Scottish Power	No charge	£43.99 electricity, £60.28 gas
E.ON	No charge (£93 if a blanking disc needs to be removed)	£50 (no charge in some circumstances)

3.27. Where the supplier does charge for the removal of a PPM, the customer is provided with details of these charges when they request the removal and where payment is required prior to the work being done. We welcome the information given to customers and note that a failure to properly advise the customer of the charges might constitute a breach of the CPRs. Scottish Power also requires the customer to pay a security deposit but will waive it in certain circumstances; British Gas also requires a deposit where a credit check shows the customer to be a credit risk.

3.28. While there are costs associated with PPM installations, there are clearly benefits to suppliers of installing a PPM in order to secure future payments. Hence we support suppliers not charging for installation. Similarly, depending on the circumstances, it is clearly in customers' interests to be able to access lower tariffs by moving away from PPM without having to face additional charges for removal of the meter.

Charges for replacement of lost cards or keys for PPMs

3.29. Four suppliers do not currently charge for the replacement of lost cards or keys for PPMs; two of these are however currently reviewing this policy and may charge in future. Suppliers who apply charges tell us they inform customers of these when the customer contacts the supplier for the replacement device. The customer usually has the option to either pay the charges upfront or have them applied to the PPM.

Suppliers must make sure customers are aware, when taking on a PPM, that charges may be applied for lost keys or cards. Failure to do so could be in breach of the CPRs. If charges are disproportionate or the contract is not clear in relation to the term allowing the charges to be levied, the terms relating to such charges could be unfair and therefore unenforceable by the supplier under the UTCCRs.

3.30. British Gas and Scottish Power are the only major suppliers that charge for the replacement of lost cards or keys for PPMs when sending by post. British Gas charges a flat fee of £8 and Scottish Power charges between £3.29 and £17.28 depending on whether the device is being sent out by first class or special delivery.

3.31. In certain circumstances British Gas allows customers to pick up replacement devices from vending outlets. Scottish Power is trialling doing so in its own and the Manweb areas. It plans to extend this to more outlets in other areas at a later date. We also welcome its non-disconnect policy on its key PPMs, which prevents customers self disconnecting during specific times (6pm to 9am Monday to Saturday and all day Sundays and bank holidays) despite having used their emergency credit.

Debt collection agents

3.32. Suppliers are responsible and liable for debt collection activities whether undertaken in-house or via third party debt collection agencies (DCAs). We explore below how these agents are selected and monitored.

3.33. In making their arrangements for debt collection, suppliers should be aware that Ofgem has powers under the Enterprise Act 2002 to take action to prevent breaches of section 40 of the Administration of Justice Act 1970. This section makes it an offence to harass debtors in a way calculated to cause alarm, distress or humiliation, or to concert with others in taking such action. Suppliers should ensure that all debt collection arrangements, whether to be executed by the supplier or a third party DCA, do not breach section 40 of the Administration of Justice Act 1970.

Use of external third party DCAs

3.34. All suppliers have confirmed that they use external DCAs but the extent of their use and the services they are engaged to provide vary between suppliers. *For live debt*, most suppliers use external DCAs for out of area visits or in areas where it is not cost effective to do so themselves. Some also use external agencies for telephony and lettering.

3.35. E.ON uses an external branding in writing and telephone for debt collection up to the point of the pre-disconnection visit letter. It is necessary that customers are clear about who they are dealing with and are not, through a belief that a third party DCA is involved, pressured into making arrangements which may be inappropriate.

3.36. *For final debt (ie the debtor is no longer their customer)*, in the first instance all suppliers attempt to recover the debt themselves, either through full payment or by agreeing a repayment period. Once this process has been exhausted, typically between 45-90 days, the debt is passed on to an external DCA to collect on the supplier's behalf. The services these agencies are engaged to provide varies across suppliers but may include telephone calls, letters, and visits.

Selection of external DCAs

3.37. Suppliers have provided us with details of their appointment process for external DCAs which indicate that a rigorous approach is being taken. We are pleased that all appear to undertake thorough procurement checks covering issues such as structure, resource, finances, health and safety as well as other less tangible issues, for example reputation. Interviews and site visits are an integral part of the process for all suppliers. Some go further, employing agencies on a trial basis initially to monitor performance and quality before entering into any long term agreements.

3.38. The OFT has issued guidance for debt collectors⁶ on how to deal fairly with debtors. We welcome suppliers' confirmation that compliance with OFT guidance is a part of either their contractual or policy arrangements (or both) with DCAs. Some have gone further by referring also to other relevant legislation in their contracts, with one specifically noting the Ofcom policy on the persistent misuse of an electronic communications network or service (which covers abandoned and silent calls). We welcome these mechanisms for ensuring that those undertaking services on behalf of suppliers and for those whose actions suppliers remain liable, are acting within all relevant legal and other frameworks.

Guidance and monitoring

3.39. Providing detailed guidance and proactively monitoring the performance of DCAs is a key element in ensuring that they meet the standards and expectations of both suppliers and customers. We are reassured that suppliers appear to have

⁶ http://www.of.gov.uk/shared_of/business_leaflets/consumer_credit/oft664.pdf

detailed processes in place for managing and monitoring third party agencies collecting live debt on their behalf.

3.40. We note that all suppliers have a dedicated manager and specialist team with responsibility for the supplier's relationship with the external DCAs. All suppliers receive performance information with which to monitor agencies and review performance against KPIs and metrics such as on debt recovery and complaints made against agents.

3.41. Most suppliers undertake on-site meetings and visits to discuss performance, usually against a scorecard of indicators. More formal monitoring arrangements have also been introduced by most of them with regular audits undertaken. These cover a range of issues such as call monitoring, complaints reporting, and reviews of scripts and letters.

3.42. All suppliers confirm that they give agents detailed guidance for debt follow-up activities. All of them require agents to call in from site visits with some making it a contractual obligation to do so. Others have established dedicated contact helplines for agents in their debt call centres.

Keeping agencies updated

3.43. Suppliers must have robust processes in place to ensure that agents working on their behalf are given accurate information on the customer and their energy debt and are updated promptly when new information needs to be passed on. The responses we have received from suppliers suggest that there is a lot of good practice here. All suppliers draw information directly from their core systems which are validated before being passed on to the external DCA. Suppliers undertake a manual check to ensure that the visit is appropriate, for example that no payments have been received or payment arrangements made, and that all the account information is available to the agent.

3.44. All suppliers run daily reports to identify any changes to the accounts which are then used to remove accounts from the agency. It is also not uncommon for third party agents to call the supplier as well ahead of a visit to verify information and to confirm that it is still required. **Suppliers must ensure that external DCAs are in possession of all appropriate and up to date information when following up the non-payment of debt.**

4. How suppliers are helping customers meet the challenge of debt

Chapter summary

In this chapter we consider what suppliers are doing to help their customers avoid and manage debt. We examine what training is given to staff to identify those who may be in need of assistance, the incentives given to these staff, how suppliers interact with third party advice agencies, and the initiatives suppliers are introducing to help customers.

Providing holistic advice and a wide range of solutions

4.1. It is important that suppliers are able to provide relevant advice, guidance, and solutions to customers at the right time. We have highlighted in chapter three how suppliers are becoming increasingly proactive in preventing debt build up and in attempting to identify and assist those in need of further help. However, it is necessary to ensure that the solutions offered to consumers are appropriate to the individual's circumstances.

Training to identify those who may need assistance

4.2. Training plays an important part in ensuring that each staff member who comes into regular contact with customers is armed with the necessary knowledge and skills to identify those customers in need of assistance and to offer them the most appropriate tailored advice. All suppliers have incorporated into their training packages discussions about their respective definitions of vulnerability and the questions necessary to recognise whether the customer fits that definition. They also have checklists in place highlighting some key characteristics that may indicate vulnerability. Early identification of difficulties ensures that the most appropriate course of action is taken and that relevant information and advice is provided. Every customer contact contains a potential opportunity to gather more information about a customer's situation.

4.3. Detailed training packages are typically provided to all staff covering core issues such as identifying vulnerability, assessing financial circumstances, debt prevention, payment options and policy (including PPM and Fuel Direct) and disconnection processes. These core elements are supplemented with more specialised training for specific teams such as negotiation, empathy and listening skills, providing energy efficiency advice and additional help available for priority service customers.

4.4. EDF Energy for example includes a session as part of its induction training called 'Strategy for debt'. This session is designed to help the advisor understand how customers' prioritise their bills and that energy bills may not be at the top of their list. Sessions on negotiation, telephone skills, priority services and vulnerability follow.

4.5. Each supplier has incorporated their own definitions of vulnerability into their policies, some of which go beyond the ERA Safety Net⁷ definition. In our recent vulnerable disconnections review⁸ we consulted on a number of proposals for improving the clarity of the 'Disconnection for unpaid charges' licence conditions⁹, including a proposal to make it clearer that the licensee is obliged to take all reasonable steps to ascertain the status of a customer and the occupants of an affected domestic premises before exercising any right it has to disconnect for a failure to pay charges. We are currently reviewing the responses to this consultation.

4.6. Obtaining the information required to assess a customer's circumstances requires particular actions and skills. Customers may be reluctant to freely offer personal information to an unknown individual in a call centre or not understand why it may be relevant to their energy supplier. Alternatively, the customer may suffer with a condition that is not clearly recognisable from a telephone call or visible during a home visit. This therefore increases the importance of appropriate staff training on telephone manner and listening skills as well as appropriate record keeping.

4.7. British Gas introduced recession training to help its staff to understand how the current recession is affecting its customers. After hosting a series of internal focus groups with its customer service teams to establish what customers were saying and experiencing, the training programme was developed and delivered to staff.

4.8. Scottish Power's Customer First programme is aimed at eliminating poor and inconsistent service provided to customers. This program aims to improve the customer experience of Scottish Power through all contact points. One key aspect of this program will look at staff training with a view to improving conversations between agents and customers.

4.9. All suppliers use their visits to customers' homes as another opportunity to identify vulnerability or debt issues when installing energy efficiency measures or as a part of a debt related home visit for example. SSE operates the 'Value on every visit' scheme whereby field collection agents are fully trained to identify vulnerability and are empowered to offer the full variety of different payment options, energy efficiency advice and access to SSE's social tariff.

4.10. Scottish Power operates a team of Customer Liaison Officers who undertake home visits to assess customers' circumstances. Where a customer service advisor identifies that a customer may be vulnerable or in need of assistance they can make a referral to this team to arrange for a home visit. The Customer Liaison Officers are able to provide advice on a range of matters including energy efficiency and different tariff options and can help the customer manage debt through one-to-one support. Npower provide a similar service as part of its First Step programme.

⁷ <http://www.energy-retail.org.uk/documents/DebtandDisconnectionFINAL.pdf>

⁸ Paragraphs 3.28-3.37 Review of vulnerable customer disconnections, October 2009, Ref: 121/09

⁹ Standard Licence Condition (SLC) 27.10 and 27.11 of suppliers gas and electricity licences

4.11. It is concerning to note that our research found customers were having mixed experiences when discussing their debts with customer advisors. They reported a lack of consistency amongst staff with the outcome often dependant on who they spoke to. A number of the respondents commented that the advisors were 'mechanical' and 'emotionless' and a few described them as 'just going through the motions'. One respondent explained that they informed the advisor that they were disabled but the advisor ignored the comment and continued to pursue full repayment of the debt.

4.12. Establishing a client's circumstances can impact significantly on which processes an advisor should follow. Developing a rapport with a customer is one simple way of opening up channels of communication enabling the customer to feel comfortable in discussing their personal situation. We would encourage suppliers to ensure their advisors use every contact with a customer as an opportunity to establish whether they require additional support. Listening skills are an integral part of this and, while this is usually provided as part of initial training, **we would encourage all suppliers to consider whether follow-up training or regular peer listening and feedback sessions can add value.**

Targets and incentives

4.13. Performance management plays an integral role for any company in ensuring key objectives are met. For suppliers this involves cascading high level objectives to all levels of staff and may include offering a range of different hard and soft incentives to help achieve these goals. Operated appropriately and carefully managed, the use of targets and incentives can be highly effective. However, we are keen that the targets and incentives on staff do not have the potential to lead to inappropriate solutions being offered to indebted customers.

4.14. With the exception of one supplier, financial incentives are used by suppliers. Incentives are primarily available for achievement in the following key areas:

- cash collection;
- customer satisfaction – complaints and escalation;
- promotion of direct debit as an alternative to cash payments; and
- setting up a payment plan.

4.15. A number of suppliers consider that a 'successful outcome' does not require the debt to be paid off in full immediately and incentivise accordingly. One supplier for example operates an incentive scheme for its field collections agents whereby financial incentives are available based on 'successful outcomes' which includes setting up a direct debit arrangement, fitting a PPM, agreeing a repayment rate or collecting the debt using Fuel Direct.

4.16. Short-term incentives are also used to encourage specific behaviours that may be relevant at a certain point in time. For example, accuracy of customer data is important, particularly when attempting to contact a customer regarding a debt. One

supplier uses incentives to encourage staff to check customers contact details during any telephone call. We welcome this innovative approach.

4.17. Soft incentives for exceptional performance are an interesting alternative to financial incentives. The main purpose of offering soft incentives is to help motivate teams and to increase team spirit while helping to focus the debt collections staff on key areas during their conversations with customers. Targets are focused on good customer service which is encouraged through team and individual targets as well as soft rewards including issuing certificates. We welcome this innovative approach to encourage appropriate behaviours.

4.18. We are encouraged to see no evidence of any of the suppliers paying commission based salaries to their customer service or internal debt collections staff. All internal customer service and debt collections agents are salaried and where financial incentives are available these are earned on top of this salary. However, we are concerned by incentives that may encourage advisors to place undue emphasis on securing agreement to amounts aimed at meeting debt recovery targets rather than achieving an appropriate outcome for the customer. We are also concerned that many suppliers offer cash incentives for direct debit conversion (ie moving a customer from quarterly payment by cash or cheque to direct debit). While we appreciate the benefits that accompany direct debit, both for some customers and the supplier, we are concerned that this approach may affect whether a debt collection agent takes into full account individual's circumstances and the suitability of direct debit to them. **We encourage suppliers to review their incentive mechanisms to ensure that they do not have the potential to lead to inappropriate outcomes for customers or outcomes that are otherwise in breach of relevant rules.** We also note that any practices which may mislead customers in choosing whether or not to move to direct debit may be in breach of the CPRs.

4.19. We would reiterate here that suppliers remain responsible and liable for the actions of third parties they may retain to perform any services, including the impact in this respect of any incentive structures.

Working with third party agencies

4.20. Third party agencies such as CAB, MAT and charities, for example Macmillan and Age UK, provide a valuable service to customers experiencing difficulty paying their bills, particularly those that are vulnerable. A third of the respondents to our consumer research had approached a third party for help or advice with their arrears. We recognise that some customers may be reluctant to discuss their personal circumstances with suppliers which can be a barrier to agreeing an appropriate payment method and debt recovery amount. It is also often the case that these customers leave contacting a third party agency until they are threatened with disconnection or the fitting of a PPM. It is therefore important that suppliers have arrangements in place for dealing with agencies contacting them on customers' behalf.

4.21. Following Ofgem's Fuel Poverty Summit in April 2008, all suppliers now have dedicated contact numbers for third parties. These numbers allow agencies to contact suppliers directly and speak to a person able to deal with vulnerable customer issues. In our research, we found that consumer advisors appreciated the easy access to knowledgeable staff that these dedicated lines provided. However, some of them reported problems when having to take the customer service route in getting through, being passed around, and being put on hold. **We encourage suppliers and advice agencies to do more to ensure that the availability of the dedicated lines is more widely known amongst agency staff.**

4.22. Suppliers have given their staff training on data protection issues and some have dedicated data protection representatives. They all confirm that they have processes in place for ascertaining consent prior to talking to agencies about customers. We are pleased that 'data protection' was not cited by consumer advisors in our research as a barrier preventing them from helping customers.

4.23. The consumer advisors also considered that suppliers should do much more to highlight to customers sources of help and advice by signposting CAB, MAT and other relevant organisations. This could take a variety of formats, such as information provided with red letter bills or by customer service staff over the telephone. This could help customers get help sooner and before energy debt reaches high levels – in particular given that customers with energy debts are likely to be building up other debt too. **Although mindful of the extra pressure this may place on agencies, we believe that there is scope for suppliers to signpost them more proactively and encourage them to consider ways of doing so.**

4.24. Whilst there is more work to be done, we are pleased that all suppliers have worked hard to develop their relationships with advice agencies. EDF Energy is funding an energy advice worker in Plymouth CAB providing training, advice and support on energy matters in Devon and Cornwall. EDF Energy also works with other agencies to increase awareness of wider debt issues rather than just energy debt.

4.25. npower customers referred from Macmillan Cancer Support are directed to a bespoke fuel management programme where they are given additional financial support and their repayments monitored. Macmillan has provided training to the npower First Step Team who deliver the programme highlighting issues that customers affected by cancer have, such as a reduction in income and increase in energy costs due to being at home more.

4.26. Scottish Power is visiting CAB offices to reinforce the service available through its Social Responsibility Support Team, providing support and guidance to all external agencies dealing with vulnerable customers or customers who are experiencing payment difficulty. It has also distributed among third parties a new 'information pack' detailing Scottish Power's services and offerings to vulnerable customers. SSE also has a dedicated team to deal with contacts from CAB and DWP and provide an 'information pack'. E.ON includes in its letters to vulnerable customers information about alternative organisations that they can contact for help.

5. How suppliers take ability to pay into account

Chapter summary

This chapter looks more closely at the suppliers' different policies and procedures for setting repayment rates and considering ability to pay in their negotiations with customers. It also discusses the different monitoring techniques the suppliers use to monitor failed repayment arrangements.

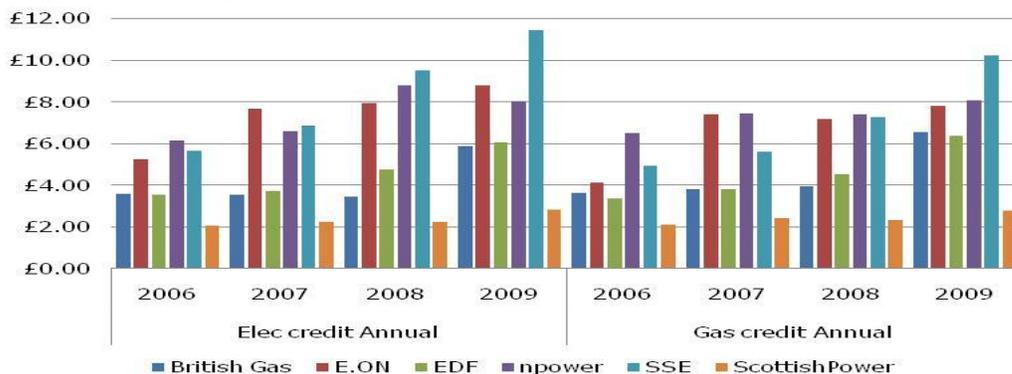
Trends in repayment levels

5.1. As part of Ofgem's ongoing monitoring, suppliers submit quarterly data on various issues including debt repayment levels, disconnection rates and the different payment methods used by customers.

5.2. As noted in chapter 2, we have seen a significant increase in the overall number of customers entering new debt repayment arrangements during the first half of 2009 for both fuels compared with 2008. Chapter 2 also highlighted that repayment rates were rising and that PPM rates were higher than for credit. PPM debt repayment levels remain consistently higher than for credit across both fuel types. While some suppliers' repayment rates have decreased over the past four years, we have seen a significant increase in the average repayments demanded over the period. In our 2008 annual report¹⁰ we signalled our intent to explore this issue further as part of this review.

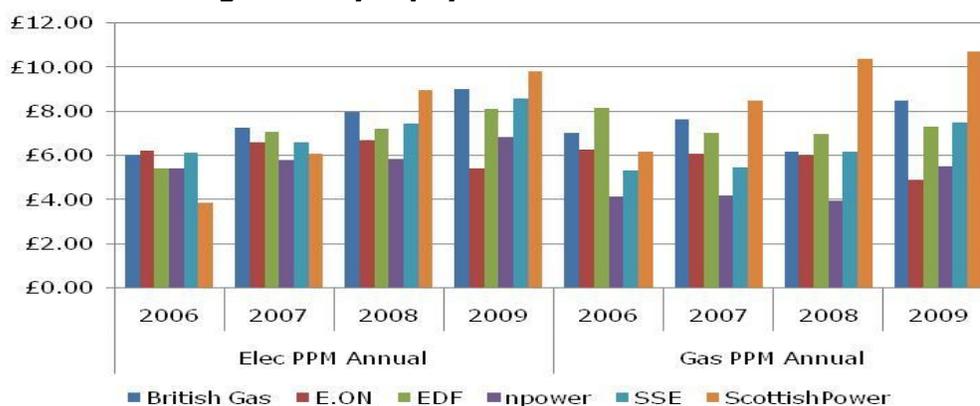
5.3. Charts 11¹¹ and 12¹¹ below show the performance of individual suppliers in repayment rates for PPM and credit customers. SSE is significantly higher for credit repayment than other suppliers, whilst Scottish Power's and British Gas' weekly rates are markedly higher for PPM than non-PPM customers. Across all suppliers there is a rising trend which causes concern.

Chart 11: Average weekly repayment rates for credit customers



¹⁰ Supplier Social Obligations Monitoring Annual Report 2008

¹¹ The 2009 data is an average relating to quarters 1-3 only.

Chart 12: Average weekly repayment rates for PPM customers

Scottish Power's repayment rates for PPM customers

5.4. During 2008, around 17% of all PPMs Scottish Power installed for debt were installed on a warrant visit. Where it has been unable to establish prior contact its policy has been to add a repayment rate of £15 per week to the meter, which may account for its average repayment rate for PPMs being higher than other suppliers. The issue of default rates applied on warrant visits is discussed further below.

5.5. As a result of Consumer Focus' contact, Scottish Power has amended its policy. Where it has been unable to agree a debt repayment rate in advance, Scottish Power has committed to installing the PPM without applying a repayment rate. It will then write to the customer or leave a letter at the property giving the customer 10 days to make contact if they have any concerns about the amount proposed before it is applied. It has also reviewed its incentive arrangements as discussed below.

Consumer Focus referral of British Gas

5.6. Late 2009, Consumer Focus referred to Ofgem a number of cases to illustrate concerns that British Gas were not fully taking into consideration customers ability to pay and were instead requiring full or part payment before discussing the customer's situation. These cases all required support from Consumer Focus' EHU to resolve.

5.7. After considering both the information provided by Consumer Focus and representations provided by British Gas in support of its approach, Ofgem launched a formal investigation into British Gas' compliance with condition 27.8 of both the gas and electricity supply licence. Ofgem is currently investigating the approach taken by British Gas when setting repayment rates to recover accrued debt.

SSE's repayment rates for credit customers

5.8. Repayment rates for SSE's credit customers in 2009 are significantly higher than any other supplier and follow a pattern of increasing rates across the period reviewed. Consumer Focus have received relatively few complaints about SSE. We will explore with SSE the basis for their repayment rates.

Licence Framework

5.9. Under their supply licence conditions¹², suppliers are required to take account of the needs of customers who are experiencing difficulty paying their energy bills. They require that customers be allowed to repay outstanding charges by instalment, including through a PPM, where this is safe and reasonably practicable, or via direct deductions from Social Security benefits (Fuel Direct) where appropriate. Suppliers are required to be proactive in establishing the customer's ability to pay and to take account of this when setting instalment amounts.

5.10. Given concerns about rising repayment levels we have set out below key Principles that suppliers should adhere to and which we will take into account in judging whether suppliers have complied with their obligations under licence condition 27:

- having appropriate credit management guidelines and policies;
- making proactive contact with customers;
- understanding individual customers' ability to pay;
- setting repayment rates based on ability to pay;
- ensuring the customer understands the arrangements; and
- monitoring payment arrangements after they have been set up.

5.11. Further detail of what we expect under each of these headings is set out below and have been summarised in appendix 1 'Key Principles for ability to pay'. These key Principles were discussed with suppliers at a recent stakeholder roundtable event. Details of this event are summarised later in this chapter.

5.12. **We stand ready to take enforcement action if suppliers do not comply with their obligations** and, as noted above, are already formally investigating British Gas. Suppliers should note that it remains their responsibility to comply with all relevant requirements, which will encompass matters over and beyond these Principles, which will be supplemented over time.

Appropriate credit management guidelines and policies

5.13. In the majority of cases, where a customer is unable to pay their bill in full at the time of issue, the supplier will seek to recover the debt over a longer period. The first option made available to the customer by all suppliers is to pay the debt off in full before the next bill is received. The aim is to recover the debt over the shortest time possible for the customer but within the suppliers timescales set out in policy. If this is not possible, the discussion will move to negotiating a payment arrangement up to 12 months for all suppliers' debt collections staff. The key question is how clear it is to consumer advisers that they have to take account of ability to pay in setting repayment rates.

¹² Standard Licence Condition (SLC) 27.5-27.7 of suppliers gas and electricity licences

5.14. Ability to pay is an essential consideration that the suppliers must seek to understand through discussions with their indebted customers. While a supplier's policy will set out the general principles that customer advisors should follow, we would expect this **policy to be appropriate in all the circumstances including the flexibility for customers to be dealt with on a case-by-case basis**. EDF Energy's policy refers to agreeing repayments of more than 52 weeks only if there is a risk of self disconnection. We encourage EDF Energy to review this policy.

5.15. As discussed in chapter four, the incentives arrangements employed by suppliers send a strong signal to staff about the behaviours expected. **Incentive structures should reflect the requirement to take account of ability to pay** and should not simply reward cash collection.

5.16. Following discussions with Consumer Focus, Scottish Power has removed all debt recovery targets from their customer service agents' objectives and intend to instead focus on the quality of service provided by their debt recovery agents.

5.17. Suppliers must consider each customer's individual situation to ensure they meet their licence obligations. Most suppliers have escalation processes in place where it is not possible to negotiate repayment rates within normal company policy. These provide for escalation to a senior or team manager or where the customer is deemed to be vulnerable, to a specialist team. For example, npower has two specialised teams – the High Value Debt team and SAFE (Solutions Available for Everyone) team - who can make repayment arrangements for longer periods. The 'SAFE' team provides assistance for those customers struggling to manage their bills but who are not eligible for support through npower's various social initiatives.

5.18. All of the suppliers also operate schemes to write-off debt, often delivered through Trust Fund or Hardship Fund activities. The valued assistance and relief that debt write-off can bring for low income and fuel poor customers is well recognised and this act of 'wiping the slate clean' can have the very positive effect of helping the customer remain debt free for the long-term¹³. We particularly welcome initiatives by suppliers that provide holistic support such as tariff and energy efficiency advice and assistance as part of the debt write-off package, but concerns remain as to whether all those who could benefit are being directed to this additional support.

Making proactive contact with customers

5.19. In chapter three we highlighted the importance of suppliers making proactive contact with customers as a key element of the debt prevention and management process. The results of our customer research indicated that it was the customer, not the supplier, who usually made the proactive telephone contact often after receiving the red final demand or disconnection letter. It is important that suppliers do not rely on customers making contact but should proactively identify those customers who

¹³ Further discussion of debt write off for vulnerable and fuel poor customers is found in our 'Monitoring suppliers' social spend' reports:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Pages/CSR.aspx>

are having difficulty in paying their bills as early as possible in order to provide customers with an appropriate solution and help reduce the risk of them falling into/further into debt. Suppliers should approach these contacts sensitively and make it clear to customers that they are trying to help rather than attempting to just elicit payment.

5.20. Given the licence obligation specifically requires suppliers "take all reasonable steps to ascertain the domestic customer's ability to pay", we expect suppliers to be proactive in making contact and in particular to:

- make early contact to identify whether a customer is in payment difficulty;
- regular review methods of proactive contact to ensure they meet the needs of customers; and
- use every contact as an opportunity to gather more information about the customer's situation.

Understanding a customer's ability to pay

5.21. In chapter four we highlighted the importance of **clear guidance and training for staff to elicit information on ability to pay**. Our consumer research found that the conversations between supplier and customer often did not include discussion of their ability to pay; around half of the customers questioned were not asked about their circumstances at all. Customers may be reluctant to share details of their personal circumstances with suppliers. It is therefore important that the training covers the softer skills around how to build empathy with the customer **making it easier for customers to raise concerns**. EDF Energy's training on negotiating payment levels provides a number of closed questions. We know that some customers lack confidence or ability to negotiate and these types of closed questions may exacerbate this situation. We encourage EDF Energy to review their training in this area.

5.22. It is also essential that suppliers **make full use of all information available to them**. In situations where further information was already available about the customer or was established during the telephone conversation, the research found that this information was not always fully utilised.

5.23. The research also found that customers were not being made aware of the full range of payment options available. We expect suppliers to **proactively discuss with the consumer what payment method best meets their individual requirements** when discussing debt repayment plans. Even if a customer mentions their preferred payment method, we consider it would be appropriate to discuss other payment methods available to ensure the customer is aware of the options.

5.24. **Third party advisers or specialist teams can help** in building an understanding of the customer's ability to pay. For example, Scottish Power operates a Social Responsibility Support Team, a multi-skilled team that acts as a single point of contact for both external and internal parties. This team provides additional

specialist support to Scottish Power's vulnerable customers and utilises the specialist skills of Community Liaison Officers (CLOs) to proactively visit any vulnerable customer to assess their situation and help them manage their debt.

5.25. British Gas, through its website, provides customers with access to a debt advice booklet and budget planner to help them to better understand their own budgets. Whilst welcome, this does not obviate the need for individual discussions when setting debt repayments.

Setting repayment rates based on ability to pay

5.26. Having established the customer's ability to pay, suppliers are required under the terms of their licence to take this into account in setting repayment rates. Consumer advisors in the research thought the initial repayment amounts offered to customers were generally high, with unrealistic timescales set without considering the customer's ability to pay. As discussed above, having flexible policies and appropriate incentive structures are key to ensuring suitable repayment rates are set. However, there are particular situations that merit special consideration.

5.27. The minimum rate on a PPM installed with the customer's consent is usually around £3 per week (similar to the Fuel Direct rate of £3.30 per fuel), although in exceptional circumstances Scottish Power can make agreements as low as £1. Suppliers also set a maximum weekly rate which varies between suppliers from £10 to £25. Where a customer is not contactable or is unwilling to negotiate, a warrant may be sought from the courts in order for a PPM to be installed, often as an alternative to disconnection. If a PPM is installed during a warrant visit when the customer is not in the property, most of the suppliers will apply a standard repayment rate. **Suppliers must ensure that the customer's circumstances including those identified on a warrant visit are taken into account when deciding whether the standard rate is appropriate.**

5.28. In these circumstances, as the repayment rate will not have been agreed with the customer it is important that suppliers make contact with the customer quickly after installation. Suppliers should leave a letter at the customer's property informing the customer of the repayment rate that has been added to the PPM which asks them to make contact if they have any concerns over the rate. This letter should also include information about the amount of emergency credit that has been provided to ensure the customer has an energy supply until they are able to credit their meter.

5.29. We are concerned that, in situations where a PPM is installed on a warrant visit without the customer present, the setting of a high repayment rate may result in self disconnection. The setting of a weekly repayment rate of £10-£25 will be a significant sum of money to most customers and is well above the average rates for credit or PPM customers for any of the suppliers. **Suppliers must consider the repayment rates they set on PPMs fitted on a warrant visit and whether they are appropriate in all circumstances.**

5.30. As discussed in chapter three, we are aware that there have been occasions where suppliers have required substantial upfront payment before agreeing to a particular payment method, including PPM. **Suppliers' insistence on substantial upfront payments is not consistent with the duty to take a customer's ability to pay into account.**

Ensuring the customer understands the arrangements

5.31. To enable customers to raise any concerns they may have about the repayment rates proposed, it is essential that they understand the arrangements and that these are set out in writing to enable the customer to get advice from third parties if necessary. We expect suppliers to write to customers when a repayment arrangement is agreed, including on a PPM, to **confirm the repayment amount**. We also expect suppliers to explain at the beginning of the agreement **when they anticipate the debt to be cleared** and again at the end to confirm that the debt has been cleared. In our research customers did not tend to know how much they were paying towards their debt or how long it would take to pay off. It is possible that the provision of inadequate or incorrect information could mislead consumers, contrary to the CPRs.

5.32. Gas PPM customers may not charge their keys over the summer when their usage is likely to be low or nil which will mean that they have to pay a large backlog of debt at the start of the winter period. We expect suppliers to be more proactive with their PPM customers, in monitoring usage and explaining debt recovery, post PPM installation and in particular that **the repayment amount will be charged every week regardless of usage**. This will help customers to understand how much they need to budget for in addition to their ongoing energy usage.

5.33. It should also be made clear to customers that **they can contact the supplier** if they have a problem with the arrangement or if their circumstances change.

Suppliers' monitoring of agreements

5.34. Suppliers report that they keep under regular review customer accounts where a repayment arrangement has been agreed. In general, suppliers will monitor an account to ensure that the first payment of a repayment plan is received and then monitor on an ongoing basis to ensure that payments continue to be made.

5.35. npower monitors and reviews customers that default on repayment arrangements automatically within its billing system and customers are contacted to establish the cause of the default. In some cases payment arrangements are monitored for the life of the arrangement depending on the individual customer circumstances and requirements. We welcome this as good practice.

5.36. Our customer research found little evidence that suppliers were following up with customers to check if their repayment amounts were affordable and/or whether

the method of repayment was appropriate for their needs. Whilst we recognise suppliers may be reluctant to do anything that might disrupt the recovery of a debt once a repayment method and amount has been agreed, this may not be in their own or their customers' best interests. We consider that licence condition 27.8 places an on-going duty on suppliers to take proactive steps to ascertain a customer's ability to pay, and that best practice in the area of debt repayment monitoring therefore includes suppliers proactively contacting their customers after a repayment arrangement is agreed and repayments begun to discuss whether the rates are set at the right level in order to identify problems at an early stage. We encourage all suppliers to consider whether there is anything else they do, for example surveying customers that have negotiated a repayment rate to understand their experience.

Post PPM installation checks

5.37. It is important that suppliers identify whether the repayment amount they have set on the PPM is manageable, particularly where it has been installed on warrant when the customer is not present.

5.38. Whilst a number of suppliers leave it to the customer to contact them, there are examples of better practice. EDF Energy's Priority Services team monitor customers who have a PPM installed on a warrant visit until their first vend. They also arrange a site visit within a reasonable period of time depending on the time of year and fuel type where a customer does not vend. SSE will monitor PPM accounts until the first purchase to ensure cards are charged and the customer is not off supply. All six suppliers appear to monitor PPM customers generally for non-purchase of energy at regular intervals. SSE and Scottish Power specifically tell us they investigate reasons why PPM customers are not charging their devices.

5.39. Whilst welcome, we believe that suppliers could do more to monitor whether arrangements for PPM customers are set at the correct level. For example, suppliers could monitor not only whether the PPM card has been charged but also **whether the level of the charging has diminished**. This could indicate a fall in usage which could be indicative of the customer struggling to meet debt repayments.

Failed agreements

5.40. For credit customers, one useful measure of whether debt repayment rates are being set appropriately is by monitoring the number of failed agreements. This enables suppliers to identify customers failing to make payments and to follow up on the reasons for this. Whilst we have seen evidence that some suppliers monitor the number of failed agreements, we have not seen any evidence that this information is collected routinely or is being used to ensure debt advisors are agreeing appropriate repayment rates. **We consider that monitoring failed arrangements, particularly in comparison to the number of arrangements agreed, provides a useful indicator of whether appropriate agreements are being made and could be a further tool for monitoring staff.** Ofgem will consider whether to collect this data in future as part of its ongoing monitoring.

Roundtable stakeholder event

5.41. As noted above, given concerns about rising repayment levels we identified a number of key Principles that suppliers should adhere to when taking customers' ability to pay into account. We were keen to highlight our findings in this area and discuss them directly with suppliers. We therefore arranged a roundtable stakeholder event on 26 April with suppliers and other stakeholders including ERA, Consumer Focus, and Money Advice Trust.

Citizens Advice

5.42. Citizens Advice recently published its report looking at best practice in debt collection called 'Do the right thing'¹⁴. Drawing on the experiences of its own advisors and those from other debt advice services when dealing with a range of creditors, Citizens Advice identified a number of practical steps creditors should take to achieve best practice. We were pleased to see that many of Citizens Advice's findings and recommendations were similar to our own. We therefore decided to host the roundtable jointly with Citizens Advice to discuss the results of both of our organisations' work.

Roundtable discussion

5.43. The response from stakeholders to the key Principles and Citizens Advice's recommendations was very positive. All suppliers indicated their support for the key Principles and suggested there was nothing in them with which they fundamentally disagreed. ERA confirmed that it would look to take forward the application of the key Principles with suppliers. Both Consumer Focus and MAT were also in agreement with the substance of the key Principles.

Next steps

5.44. Whilst we welcome the commitment to the key Principles by suppliers at the roundtable event this is only the first step. Suppliers need to now consider how they introduce these Principles into their day to day work. We have published alongside this report an open letter to the Chief Executive's of the main six suppliers in which we set out our expectations in this regard. We are encouraged by the ERA's willingness to take this issue forward with suppliers to understand what they need to change and how they intend to make it happen. We look forward to hearing their plans.

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http://www.citizensadvice.org.uk/index/campaigns/policy_campaign_publications/evidence_reports/er_consumerandebt/do_the_right_thing

6. Payment method policies

Chapter summary
 Suppliers' licence conditions require them to allow customers to repay outstanding charges by instalment, including a PPM where safe and reasonably practicable, or via direct deductions from Social Security benefits (Fuel Direct) where appropriate. This chapter examines suppliers' policies and practices for these and emerging payment types.

Fuel Direct

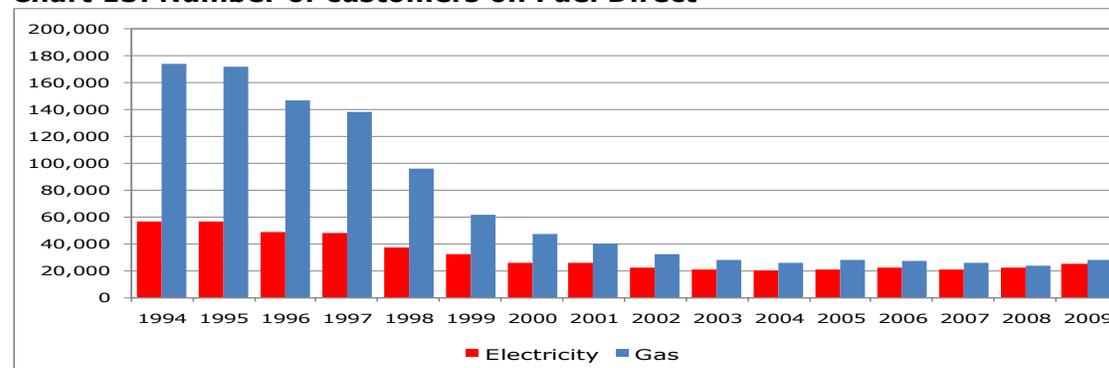
6.1. Fuel Direct (also known as Third Party Deductions) is a scheme administered by the DWP to facilitate direct, fixed amount payments for energy debt and ongoing consumption from specific Social Security benefits. To be eligible for the scheme, the customer has to be in debt to their energy supplier for at least one fuel type and have a debt greater than £65.45 (equivalent to the single person's benefit allowance). Once the debt is repaid the customer can stay on Fuel Direct only if the DWP agree that the customer is at risk of defaulting again on their fuel bills.

6.2. Fuel Direct has a number of benefits for customers: it removes the worry created by the debt and threat of disconnection; they can access a low repayment level (£3.30pw); it helps those for whom a PPM is not suitable and where repayment by other methods has not been successful. It is important that, in line with their licence obligation, where Fuel Direct is the most suitable method of debt repayment, customers are informed of it and can access it.

Supplier policies and practices

6.3. Chart 13 shows that the number of customers paying through Fuel Direct has fallen considerably since the 1990's. The decline is likely to be due to a focus towards using PPMs to recover debt (particularly the case in gas) and a preference for Fuel Direct only to be used as a last resort measure by both suppliers and DWP.

Chart 13: Number of customers on Fuel Direct



6.4. Responses have suggested a lack of understanding of Fuel Direct and/or staff training from some suppliers. As a result, some suppliers only use the repayment method in very limited circumstances. This is supported by the results of our consumer research which indicated that customers eligible for Fuel Direct were often not told about it by suppliers.

6.5. The scheme is generally considered by suppliers to be a 'last resort' prior to disconnection for customers who are in payment difficulty, receive social security benefit and have no other suitable method of repaying the debt. This general policy can lead to very large debts being built up whilst other repayment methods are tried and arrangements failed. This build up of debt before Fuel Direct is considered is supported by anecdotal evidence from DWP.

6.6. We also understand from discussions with suppliers and other parties, such as the ERA, that suppliers sometimes find the process of getting a customer onto Fuel Direct administratively complex and time consuming. Consumer advisors also identified this as an issue during the research noting that suppliers often request that they make the arrangements with DWP to get the customer onto Fuel Direct.

6.7. The tariff applied to Fuel Direct customers for their ongoing consumption varies. Some suppliers do not change the tariff when the customer moves to Fuel Direct, whilst others such as EDF Energy and Scottish Power offer their social tariff. SSE puts qualifying Fuel Direct customers onto its social tariff, with those who do not qualify being given SSE's Winter Care Rebate of £50 per account this financial year.

6.8. There are also growing concerns that the combination of the repayment rate and paying for ongoing consumption are more than customers can afford, and potentially above or very close to the maximum 25 per cent¹⁵ of a customer's benefits that can be recovered through Fuel Direct. As an illustration, 25 per cent of the personal allowance for a single person aged 25 or over is around £16 per week. A customer using a typical amount of gas and electricity and on a standard credit tariff could be currently paying around £23.80 per week for their ongoing consumption, before any debt repayment is taken into account.

6.9. While affordability is an issue regardless of repayment method, it is particularly pronounced with Fuel Direct because it directly restricts the amount of money that can be collected. If suppliers do not proactively review consumption levels customers will continue to build up larger debts if they are consuming more than the supplier has estimated. Fuel Direct may also not provide the same incentives for customers to be energy efficient as they do not realise that they are building up a debt and are to some extent protected from higher charges. **Suppliers must ensure that consumption is regularly reviewed and, in line with their licence obligations, give customers in payment difficulty energy efficiency advice.** We would also encourage suppliers to consider prioritising these customers in terms of assistance

¹⁵ Where all deductions (including an amount for current consumption and other deductions such as housing) exceed 25 per cent of the customer's benefits, the customer's permission is required.

they provide through CERT or their social programmes if it is clear that the payment levels under Fuel Direct are unsustainable.

6.10. Evidence from our consumer engagement initiatives¹⁶ show that customers feel they do not have sufficient understanding of how to employ energy efficiency measures in order to reduce use of energy. This is despite a willingness to be more efficient in their energy use. As noted in chapter one, as part of the probe measures we require suppliers to provide energy efficiency advice to customers unable to switch due to debt. We welcome initiatives from suppliers in this area. For example EDF Energy sends a home energy survey to all customers new to Fuel Direct to enable it to give appropriate energy efficiency advice. We also strongly encourage suppliers to work with customers to reduce their energy consumption more widely.

Increasing the take-up of Fuel Direct

6.11. In line with their licence obligation, we expect suppliers to offer the option of Fuel Direct to eligible customers when it becomes aware that they are having difficulty paying their energy bills. Where the energy debt is over £65.45 and the customer is on qualifying Social Security benefits, Ofgem considers that Fuel Direct will normally be the most suitable payment option where:

- the customer is vulnerable
- repayment of debt through a PPM is not a suitable option because:
 - a PPM cannot be installed due to safety reasons;
 - access to crediting facilities is inconvenient or difficult because of additional travelling time or expense, or the customer suffers from mobility problems;
 - those living in the premises include the elderly, disabled, long-term sick or people with mental health problems;
 - there is a strong likelihood that the customer will self disconnect due to a shortage of funds; and/or
- other methods of repayment have been tried at least once and failed.

6.12. **We also ask suppliers to proactively consider putting their Fuel Direct customers on to their cheapest tariff, including their social tariff.** Once the customer is set up on the scheme, we are not aware of any significant costs over and above other payment methods and in some cases the costs may be lower than payment methods such as PPM and standard credit.

6.13. Proactive ongoing management of Fuel Direct customers was highlighted as good practice by one advisor in the customer research. We note that some suppliers have a specific team that deals with Fuel Direct applications and encourage all suppliers to consider whether their current arrangements meet the needs of their Fuel Direct customers.

6.14. We note that more recently the ERA and suppliers have met with the DWP to better understand Fuel Direct and DWP has offered to help suppliers with staff training on the scheme. We encourage suppliers to respond positively to this offer.

¹⁶ Consumer Panel, October 2009

6.15. In the longer term, DWP is planning to automate the process for suppliers to apply to put a customer on Fuel Direct and update a customer's consumption details. These processes are currently manual, which can be time consuming for the supplier, and it can take many days before the DWP agree the application. DWP are anticipating the automation will be active from October 2011. We welcome this development.

Prepayment meters

Safe and practicable installation of PPMs

6.16. Suppliers have reported to us that there are a number of circumstances where they cannot install a PPM because it is not safe or reasonably practicable to do so. These include (not all apply to each supplier):

- the customer has a particular vulnerability issue (physical, mental or financial) that will limit their ability to use the PPM or there is a risk of self disconnection;
- there is no access or no 24 hour access to a charging outlet near to the customer;
- the meter is in an inaccessible place, such as in a communal cupboard/in-take room or the meter is too high (above 1.8 metres/6ft);
- there are space restrictions limiting the ability to install a PPM;
- where the customer is not present at the property, a gas PPM sometimes cannot be installed because of the inability to purge and relight; and
- the customer's property is on an Independent Gas Transporter's (IGT) network.

6.17. With the exception of when vulnerability is identified, in most cases where a PPM cannot be fitted the customer's supply is disconnected. It is therefore important that the reasons for not installing a PPM are explained, understood and alternatives to disconnection are identified. Disconnection must always be a last resort. Therefore, where a PPM cannot be installed to recover the debt for safety or practical reasons and another repayment method is not possible, we expect suppliers to consider other means of recovering the debt prior to disconnection. The following outlines examples of practices suppliers are adopting in order to avoid disconnection where they are unable to install a PPM.

6.18. E.ON and SSE give their gas customers the option of recovering the debt through the electricity PPM. E.ON will also consider the option of moving the meter if it is in an inaccessible place and may meet the costs of doing so. npower is also in the process of undertaking a trial looking at moving the meter free of charge where the current location is unsuitable for a PPM. EDF Energy, who claim to be hit hard by the inability to install PPMs in communal cupboards/in-take rooms because the London area has a greater number of flats, has been trialling resiting the PPM. This involves installing a PPM temporarily in an intake room and making an appointment to re-site it within the customer's property.

6.19. A number of suppliers have taken action to overcome the problem of purge and relight when force fitting gas PPMs without the customer present. SSE's engineers undertake purge and relight when the customer is not there. E.ON has been carrying

out a trial where a blanking disc is installed into the gas PPM which prevents the meter being used until the customer requests the disc's removal. EDF Energy will install the gas meter but the gas supply will have a "restricted flow" and a blanking disc will be inserted until a Gas Safe Register engineer can purge and relight. We note that Scottish Power claim that purge and relight is one of the main reasons why it currently has the highest number of gas disconnections. We understand that Scottish Power is currently developing a trial programme similar to E.ON's.

Installation of PPMs on IGT networks

6.20. We are aware that some customers on IGT networks have been unable to have a gas PPM installed because some suppliers consider the additional cost of installing, servicing and operating PPMs on IGT networks to be prohibitive. However, we note that two suppliers have now overcome these difficulties. SSE has arrangements with most IGT networks to allow the installation of gas PPMs. Scottish Power, following a successful pilot with an independent gas meter operator, is now able to install gas PPMs for most IGT customers. The pilot has also resulted in two of the larger IGTs offering to provide their own PPM solutions to Scottish Power.

6.21. We note that the other suppliers are either still in the process of trialling the installation of PPMs or are no closer to resolving their inability to install PPMs on IGT networks. Given Scottish Power and SSE have demonstrated that this can be done, **we expect all suppliers to work to offer PPMs on IGT networks. We will write to the remaining suppliers and will monitor progress.**

6.22. In their response to Ofgem's October 2009 disconnections review, npower suggested that standard industry data flows have yet to be developed to support IGT customers with PPMs switching supplier. **We would appreciate views from stakeholders, particularly other suppliers, about whether this is likely to be an issue as more customers on IGT networks are able to have a PPM.**

Payment card

6.23. Our consumer research found that the most common method of repaying the debt for customers new to energy debt was using a payment card. To a very large extent, the dominance of this repayment method appeared to be driven by suppliers.

6.24. A payment card involves customers proactively making repayments on a regular basis at the Post Office, paypoint or payzone outlets. Some customers may like this method because of the control it gives them as it allows small frequent payments for those on a weekly budget. Compared to PPM it allows customers greater flexibility without the risk of self-disconnection. For other customers who find budgeting harder however, there is not the same discipline on them to maintain payments. From a supplier's perspective it avoids the cost of PPM installation but is perhaps the least secure payment method because it is dependant on the customer making the payment. It is therefore important that suppliers regularly monitor payments and consumption levels in order to avoid a further build up of debt and

problems for the customer further down the line, particularly if the customer is consuming more than the supplier has estimated.

6.25. There were suggestions from some research respondents that the repayment levels on the payment card may have been set at unaffordable levels. This may result in the customer defaulting on the payments and the debt not being managed or ultimately customers struggling to live on their remaining income.

6.26. Ofgem has not previously monitored customers repaying their debt using this method as a separate group of customers. However, given the apparent high levels of usage of this repayment method, **we intend to review the information we collect from suppliers to better understand the extent this method is being used.** We have also undertaken qualitative research¹⁷ to understand the experiences of customers using this payment method. This shows that whilst customers are satisfied with its simplicity and flexibility and saw a number of advantages compared to other payment methods, there is little evidence of a consistent approach to proactive monitoring of payments across suppliers and between customers. The research also suggested it was only suited to customers that were able to keep up with their payments, both for ongoing consumption and paying off a debt.

Internet enabled tariffs

6.27. We have seen the emergence of tariffs designed to make more use of new technology. 'Virtual Collections' is Scottish Power's online debt management tool for quarterly credit customers to repay debt over six months. It allows customers to select the payment interval - monthly, fortnightly or weekly - and to choose the repayment rate from six options.

6.28. British Gas and Scottish Power have tariffs which give PPM customers the facility to pay in the home for their energy through the use of a USB device connected to their computer. This offers indebted quarterly credit customers the opportunity to switch to a PPM and pay to charge up their PPM key on-line. These alternative payment means can also help in avoiding debt build-up in the first place by allowing the customer more flexibility to budget and manage their payments in line with the pattern of their income, for example weekly benefits payment.

6.29. By developing a range of payment methods that work for different customers, suppliers make it more likely that payments will be made and debt avoided. We encourage suppliers to make use of the new and emerging technology which provides an opportunity for them to be innovative and offer a range of assistance tailored to their customers' circumstances. We are keen that suppliers also focus attention on those customers for whom in home technology is not an option for managing their energy accounts. We believe that there is an opportunity for suppliers to consider whether the way other industries and utilities manage customers out of debt could be utilised by them.

¹⁷ MORI research - Customers' experiences with payment cards.

Appendices

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Appendix 1 – Key Principles for ability to pay

The Principles reflect key considerations which the Authority will look for, and take into account, along with any other relevant factors, when assessing compliance with supply licence condition 27.

Having appropriate credit management policies and guidelines

- Allowing for customers to be dealt with on a case-by-case basis
- Linking staff incentives to successful outcomes not repayment rates

Making proactive contact with customers

- Making early contact to identify whether a customer is in payment difficulty
- Regularly reviewing methods of proactive contact to ensure they meet the needs of customers
- Using every contact as an opportunity to gather more information about the customer's situation

Understanding individual customer's ability to pay

- Providing clear guidance and training for staff on how to elicit information on ability to pay and monitoring the effectiveness of this
- Making it easier for customers to raise concerns
- Making full use of all available information
- Proactively exploring not only payment amount but appropriate payment methods

Setting repayment rates based on ability to pay

- Where default amounts are set it should be made clear that these are guidelines only and in any event the levels should be reasonable
- Ensuring all available information is obtained and taken into account including the customer's circumstances identified on the warrant visit or when installing a PPM on a warrant
- Not insisting on substantial upfront before reconnection.

Ensuring the customer understands the arrangement

- There must be clear communication with the customer which allows them to understand:
 - how much they are repaying each week;
 - when the debt will be repaid; and

- what to do if they experience difficulties.
- For PPM customers this includes explaining that debt will be recovered regardless of usage (eg over the summer).

Monitoring of arrangements after they have been set up

- Individual arrangements must be monitored:
 - for credit customers' broken arrangements;
 - and for PPM to check whether it is being used initially and on an ongoing basis.
- There should be monitoring of agreed repayment rates across staff using call listening and other techniques to encourage a consistent approach
- Monitoring of failed arrangements to understand whether inappropriate rates are being set
- Monitoring of overall repayment rates and recovery periods to understand trends.

Appendix 2 – Previous Ofgem and energywatch/Consumer Focus work on debt and disconnection

1.1. Ofgem and Consumer Focus (and its predecessor energywatch) have a long history of involvement in the area of debt and disconnection, beginning with the guidelines on good practice for preventing debt and disconnection introduced in 2002 through to our last joint review which was published in January 2008.

1.2. In January 2003, Ofgem and energywatch jointly published good practice guidelines for suppliers on preventing debt and disconnection¹⁸. These guidelines invited suppliers to develop strategies which focussed on improving in six key areas:

- minimising billing errors;
- using incoming calls to identify consumers that are in difficulty;
- using consumer records to target energy efficiency improvements;
- demonstrating flexibility in debt recovery;
- offering sustainable solutions to consumers in extreme hardship; and
- helping consumers who are unable to manage their own affairs.

1.3. In March 2005, Ofgem and energywatch commissioned a report on the progress made by the six main energy suppliers in implementing the good practice guidelines. The report highlighted that the guidelines¹⁹ had been positively received, resulted in improvements to suppliers' attitudes and service and had a positive impact in driving action in this area.

1.4. The Debt and Disconnection Best Practice Review Ofgem published in January 2008 was the first review we had undertaken in this area since the report by Sohn Associates in 2005. This review highlighted examples of good practice which could be shared across suppliers to ensure that customers, particularly vulnerable customers, have an appropriate level of protection. In particular, when carrying out this review we focused on how suppliers communicate with their vulnerable customers. Whilst we found that there had been real progress since the last review, this did however vary across suppliers and we highlighted areas for further improvement - particularly in how suppliers' proactively explore customers' capacity to pay when setting repayment rates.

1.5. We also commissioned some consumer research as part of this review to examine the consumer experience of debt and disconnection. This highlighted that

¹⁸

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=100&refer=Sustainability/SocAction/Publications>

¹⁹

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Sustainability/SocAction/Publications>

consumers' experiences varied enormously and for those who had a poor experience, it can result in considerable dissatisfaction and detriment. Finally the review considered the quality of the correspondence suppliers send to their customers who have not paid their energy bills, in particular to see how clear and easy to understand suppliers' letters are. This suggested a number of improvements to bring the letters in line with acknowledged best practice.

1.6. Ofgem, in its 2009-10 Corporate Strategy, had already committed to carrying out a review of suppliers' debt and disconnection policies and processes and, as with previous reviews, we agreed to do this jointly with Consumer Focus. However given specific concerns resulting from E.ON disconnecting a small number of vulnerable customers during 2007 and 2008²⁰ and a number of cases received at Consumer Focus' Extra Help Unit (EHU) involving vulnerable customers being disconnected, we decided to carry out a faster track review of the protections in place to prevent vulnerable customers being disconnected separately from this broader review of suppliers' debt procedures. The aim of this review was to ensure that suppliers had adequate processes in place to protect vulnerable customers from being disconnected.

1.7. The review concluded that we are satisfied that suppliers' policies and procedures to identify vulnerable customers and prevent them from disconnection are largely satisfactory. However, we also found some areas of weakness and inconsistencies between suppliers that needed to be addressed. Working with the ERA and suppliers a number of changes to suppliers' processes and to the existing self-regulatory arrangements to help prevent the disconnection of vulnerable customers have been secured, in particular:

- a clearer commitment from suppliers to consider a household with children to be potentially vulnerable regardless of the age of the children;
- the adoption by suppliers of guidance produced by the Money Advice Liaison Group on dealing with customers with mental health problems;
- the inclusion in the ERA Safety Net of the principle that suppliers can consider disconnection fee write-off for their fuel poor customers;
- reinforcement of the ERA Safety Net principles to ensure they cover all situations where vulnerable customers might be disconnected for debt including in mixed business/residential properties (e.g. flats above a shop), apparently unoccupied premises and cases where the supplier goes to install a prepayment meter (PPM) but finds they cannot; and
- a much more rigorous audit process to ensure that suppliers adhere to the Safety Net rules.

1.8. Responses to the consultation were sought by 20 November 2009.

²⁰ On realising that they had disconnected four vulnerable customers E.ON ceased all residential disconnections and carried out a root and branch review of its policies and procedures in this area. They have not recommenced any disconnection activity.

1.9. In addition to these more in depth periodic reviews, Ofgem regularly monitors and reports on suppliers' debt and disconnection performance and we have taken a number of actions (both formally and informally) in instances where we have evidence that industry's or individual supplier's performance and procedures are not as robust as they should be.

Appendix 3 – 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.²¹

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 accordingly²².

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 them²³;
- 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.²⁴

²¹ entitled "Gas Supply" and "Electricity Supply" respectively.

²² 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.

²³ 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.

²⁴ The Authority may have regard to other descriptions of consumers.

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 licensed²⁵ 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 Regulation²⁶ 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.

²⁵ Or persons authorised by exemptions to carry on any activity.

²⁶ Council Regulation (EC) 1/2003

Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

- Does the report adequately reflect your views? If not, why not?
- Does the report offer a clear explanation as to why not all the views offered had been taken forward?
- Did the report offer a clear explanation and justification for the decision? If not, how could this information have been better presented?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand, could it have been better written?
- Please add any further comments?

1.2. Please send your comments to:

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