

## Domestic suppliers' social obligations: 2009 Annual report

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**Target Audience:** Suppliers, consumer organisations and other interested parties

### Overview:

This report provides a summary of domestic suppliers' performance for the calendar year 2009 in relation to debt and disconnection, prepayment meters and services for vulnerable customers. The key findings are:

- Disconnections continued to decrease in 2009, particularly for gas;
- The number of people repaying a debt has remained broadly static, however there has been a significant increase in people entering debt repayment arrangements for the first time and in people with bigger debts. Average weekly repayment amounts have generally increased;
- There was an overall rise in the number of prepayment meter (PPM) customers, largely due to a rise in the installation of PPMs to recover debt;
- There has been a substantial increase in the number of customers on Fuel Direct;
- The number of customers on suppliers' Priority Services Registers has increased, as has the number of customers receiving general energy efficiency information and more specialist energy efficiency advice.

Ofgem will continue to closely monitor suppliers' performance in these areas, intervening where we identify issues. One such intervention has been our recent development of some key Principles for suppliers to use when assessing customers' ability to pay.

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## Context

As part of its Social Action Strategy, Ofgem collects quarterly and annual data from domestic suppliers on their performance in relation to their social obligations. This includes areas of operation where vulnerable customers may be affected.

This report aims to give a comprehensive overview of suppliers' performance and practice in relation to debt and disconnection, prepayment meters, Priority Services Registers and energy efficiency advice. The data is gathered and published on a quarterly basis and is available on the Ofgem website at:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Pages/SocObMonitor.aspx>

This annual report presents an analysis of suppliers' performance in these areas throughout 2009. The report covers social obligations under the supply licence conditions and does not cover suppliers' activities related to their expenditure on voluntary social initiatives, which are reported on separately.

## Associated Documents

- Social Action Strategy Update 2009-2010  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Documents1/SAS%202009.pdf>
- Domestic suppliers' social obligations, Annual monitoring report, August 2008  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/2008%20Supplier%20Social%20Obligations%20Annual%20Report.pdf>
- Review of protection for vulnerable customers from disconnection, August 2009  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Review%20of%20vulnerable%20customer%20disconnections%20report.pdf>
- Review of suppliers' approaches to debt management and prevention, June 2010  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Debt%20Review%20Report.pdf>
- Update on Probe monitoring: tariff differentials and consumer switching, July 2010  
[http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Update%20on%20Probe%20Monitoring\\_FINAL.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Update%20on%20Probe%20Monitoring_FINAL.pdf)
- Suppliers submit the data in line with Ofgem guidance set out in the document 'Monitoring suppliers' performance in relation to domestic customers' and data presented in this document should be read in conjunction with this guidance to guard against misinterpretation. The guidance is available at:  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Monitoring%20Suppliers%20Performance%20Guidance.pdf>

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## Summary

This document provides an outline of suppliers' performance during 2009 in relation to specific social obligations which includes areas of operation where vulnerable customers may be affected. This includes performance in relation to debt and disconnection, prepayment meters (PPMs), Fuel Direct, Priority Services Registers, free gas safety checks and energy efficiency information and advice.

The number of customers repaying gas and electricity debts through an agreed debt repayment plan remained broadly static in 2009. At the end of 2009, there were 1.1 million electricity customers and 0.8 million gas customers repaying a debt. However, we are aware that many more customers are struggling to pay bills and some are taking longer than usual to pay. As these customers have not entered into debt repayment plans with their suppliers, they are not included in the debt figures that we monitor here.

While the total repaying a debt has not increased, there are indications that the economic downturn is putting pressure on energy consumers' ability to pay their bills. The number of customers entering into new debt repayment arrangements (i.e. repaying a debt for the first time or re-arranging a repayment arrangement) increased by 19% in electricity and 18% in gas during 2009. In addition, the average level of debt being repaid has increased from £256 to £277 in electricity and even more markedly from £209 to £287 in gas. The proportion of customers that owe more than £100 has also increased, particularly in gas.

Of continuing concern is the increase in the average weekly repayment amounts set by suppliers, particularly for electricity credit customers which increased to £8.17 (an increase of 29%). PPM customers experienced less significant increases in average repayment rates for both fuels.

One of the key findings of Ofgem's June 2010 review of suppliers' debt prevention and management policies and practices was that suppliers appeared to be taking an inconsistent approach to taking into account customers' ability to pay when setting repayment amounts. As a result, Ofgem has set a number of key Principles that suppliers should consider when assessing customers' ability to pay. We are pleased that suppliers have backed these. We will take these into account when considering suppliers' adherence to their supply licence obligations and we stand ready to take enforcement action where suppliers are in breach of their supply licence obligations.

Disconnections decreased from 5,890 in 2008 to 4,227 in 2009 – a 28% decrease – and they remain significantly lower than they were at the start of the decade. However EDF Energy and Scottish Power, for electricity and gas respectively, have disproportionately high disconnection rates compared to other suppliers, which worryingly increased in 2009. They attribute this to difficulties they have in fitting PPMs in some circumstances. EDF Energy has made limited progress through a trial they undertook during the second half of last year and Scottish Power has told Ofgem it is investigating the possibility of undertaking a trial to attempt to remedy its issues. We are concerned about the increase in these suppliers' disconnection levels and are meeting with both companies at a senior level to put in place urgent

action to address this. We will continue to monitor their progress and expect them to resolve their relatively high disconnection rates.

While a fall in disconnections is good news, we continue to monitor this issue very closely. In October 2009, we published our review of protection for vulnerable customers from disconnection. While the review found that suppliers' policies and practices to identify vulnerable customers and prevent them from being disconnected were largely satisfactory, we did identify some areas of weakness and inconsistency between suppliers that needed to be addressed. As a result, we have secured improvements to energy suppliers' code of practice in relation to disconnections (known as the 'Safety Net') and are finalising a licence change that makes it explicit that suppliers need to take proactive steps to identify whether a customer is vulnerable prior to disconnection.

There was an increase in the number of electricity and gas prepayment meter (PPM) customers between 2008 and 2009 – from 3.6 million to 3.8 million for electricity and from 2.4 million to 2.6 million for gas. At the end of 2009, around 14% of electricity customers and 12% of gas customers paid through a PPM. The increase in PPMs can be attributed largely to an increase in the installation of PPMs to recover debt – a 39% increase in electricity and 20% in gas.

Ofgem's Energy Supply Probe identified certain PPM price premiums that did not appear to have sound cost justifications. As of 1 September 2009, Ofgem introduced new licence conditions to address unfair price differentials for domestic customers. In July 2010 Ofgem published a report that shows the result of the new conditions has seen price differences eroded, for example, PPM customers now pay £19 less, on average, than customers paying by standard credit (down from £55 more in October 2007). We will continue to monitor the differences in charges for different payment methods and will take action if these differences are found to not be cost reflective.

In 2009 the number of customers on suppliers' Priority Services Registers (a list of priority customers, entitled to special free services, that suppliers are required to maintain) has increased across all suppliers. These welcome increases are largely due to suppliers' continued improvement in the communication and promotion of the existence of their PSRs, as well as proactive efforts to ascertain customer eligibility so that services can be targeted appropriately.

In 2009 the number of customers paying by Fuel Direct increased, by 18% for electricity and 20% for gas. We are pleased to see an increase in the use of Fuel Direct, however, compared to the number of customers in debt, the number of customers paying through this scheme is still very low. Through our recent review of suppliers' approaches to debt management and prevention, we found that suppliers need to do more to ensure that Fuel Direct is offered more readily. Consistent with their licence obligations, suppliers must make sure that customers for whom Fuel Direct is the most appropriate payment method are offered it.

We are currently conducting a review of the social obligations data that we collect to ensure that it is fit for purpose and that we are monitoring key developments. We have received views from suppliers and consumer groups to aid our review and will report on our proposed changes later this year.

## 1. Introduction

This section gives an overview of the content and structure of Ofgem's 2009 Annual social obligations monitoring report.

1.1. Ofgem collects data on debt, disconnection, prepayment and help for vulnerable customers from domestic suppliers on a quarterly and annual basis. This is used to review suppliers' performance in relation to specific social obligations which includes areas of operation where vulnerable customers may be affected. By monitoring these statistics Ofgem can identify areas in which improvements need to be made to suppliers' policies and practices in these areas. This report relates to the calendar year January - December 2009.

1.2. We are currently reviewing the data we collect to monitor suppliers' social obligations, which we sought views on as part of our Q3 2009 letter published in January. We will report on the changes that we intend to make later this year.

1.3. The structure of this document is as follows:

- Chapter 2 provides an overview of the domestic debt picture in 2009, focussing on key trends relating to the number of customers repaying a debt, the number of customers entering new debt repayment arrangements, the size of the debt that indebted customers are repaying and the level of debt repayment rates.
- Chapter 3 identifies trends in disconnection in 2009, providing analysis on the overall disconnections picture and also the performance of each of the six major suppliers.
- Chapter 4 focuses on prepayment meters (PPM) in 2009, giving information and analysis on the number of PPM customers and the reason for the installation of PPMs.
- Chapter 5 outlines the key trends identified in suppliers' work to help vulnerable customers through the Priority Services Register (PSR). It also looks at trends in relation to the provision of energy efficiency information and advice by suppliers to customers, particularly to PSR customers and customers in debt, and at the provision of free gas safety checks to certain customers. The chapter also examines the uptake of Fuel Direct by customers.

## 2. Overview of the domestic debt picture

This chapter reports on the number of customers repaying a debt, the number of customers entering new debt repayment arrangements, the level of debt and the average level of debt repayment rates.

2.1. Under their gas and electricity supply licence conditions, suppliers are obliged<sup>1</sup> to offer, where they become aware or have reason to believe that a domestic customer is having difficulty (or will have difficulty) paying all or part of their energy bill, the following payment options: payment by regular instalment; through a prepayment meter (where this is safe and reasonably practicable) or through direct deductions from social security benefits (known as Fuel Direct). Suppliers are required to take all reasonable steps in establishing customers' ability to pay and to take account of this when calculating instalment amounts.

2.2. Ofgem published a review of suppliers' approaches to debt management and prevention in June 2010<sup>2</sup>. The review was carried out jointly with Consumer Focus and follows our joint review of the protection for vulnerable customers from disconnection published in October 2009<sup>3</sup>. The review identified many examples of good practice amongst suppliers. 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. As a result, we have developed some key Principles, detailed in appendix 2, that suppliers should use when assessing ability to pay. We will take into account the extent suppliers have adopted these key Principles when considering suppliers' adherence to their supply licence conditions.

2.3. As part of our review we identified a number of good practices amongst suppliers to proactively prevent and manage debt. However, our research indicates that it is often the customer who initiates contact some way into the debt process. We expect suppliers to step up proactive activity so that those who need help receive it as soon as possible, including early referral to broader debt advice.

### Number of customers repaying an energy debt

2.4. The overall number of customers repaying a debt through an agreed repayment plan with their supplier at the end of 2009 was broadly stable across both fuels compared to the end of 2008. However, there are indications that the economic

<sup>1</sup> Pursuant to licence condition 27.6 of the standard gas and electricity supply licence conditions.

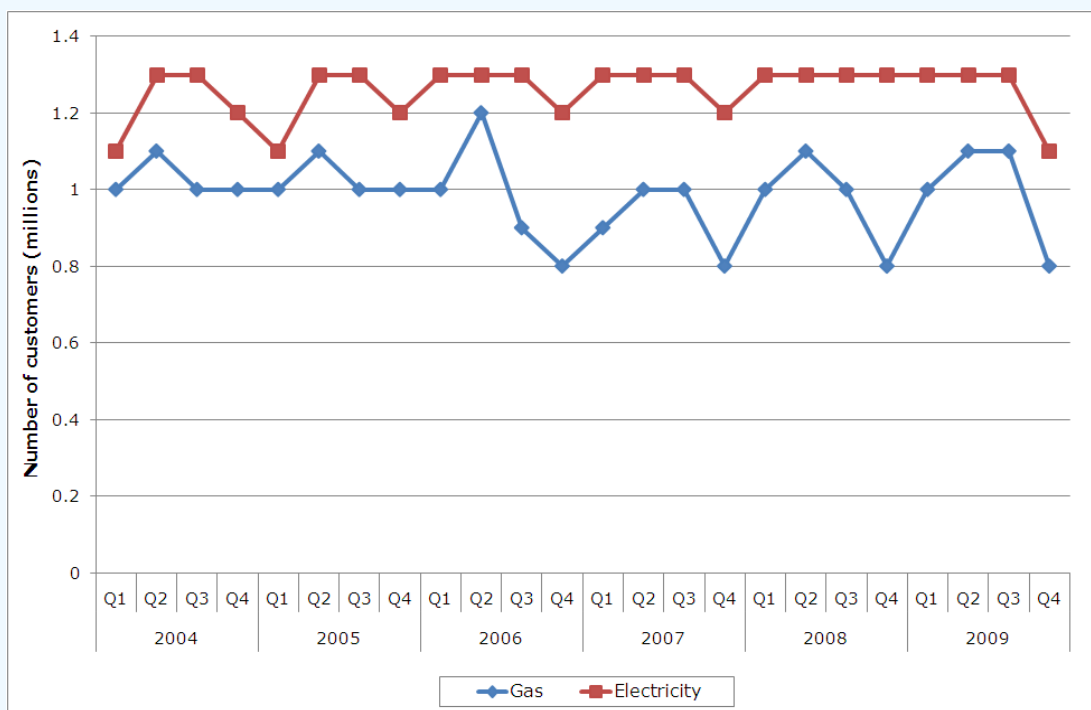
<sup>2</sup> Review of suppliers' approaches to debt management and prevention, June 2010: <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Debt%20Review%20Report.pdf>

<sup>3</sup> Review of protection for vulnerable customers from disconnection, October 2009: <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Review%20of%20vulnerable%20customer%20disconnections%20report.pdf>

downturn is putting pressure on energy consumers, as the number of customers entering new debt repayment arrangements (which includes those new to debt and those that have agreed a new debt repayment plan) and the level of debt increased during 2009. There was a 19% increase in the number of electricity customers and a 18% increase in the number of gas customers entering into new debt repayment arrangements in 2009 compared to 2008<sup>4,5</sup>.

2.5. The different trends seen between the total number of customers repaying a debt (which is a snapshot as at the end of each calendar year) and the number of customers entering new debt repayment arrangements (an accumulative figure for the year) can be explained by the high number of customers that repay their debt within one year, as demonstrated by the average repayment periods shown in figure 6.

**Figure 1: Number of customers repaying a debt**



Source: Ofgem, supplier data

<sup>4</sup> These figures are lower than had been suggested by our published quarterly reports for 2009. We have identified two suppliers that were including direct debit customers that had entered into new payment arrangements because of a shortfall in their monthly payments in these figures. This is not in accordance with our guidance, therefore the figures reported here have been amended to exclude these customers.

<sup>5</sup> npower's number of gas and electricity customers entering into new debt repayment arrangements has been excluded from these figures as they have been unable to provide the figures in accordance with our guidance and the inclusion of the figures would lead to an inconsistency with the data provided by other suppliers.



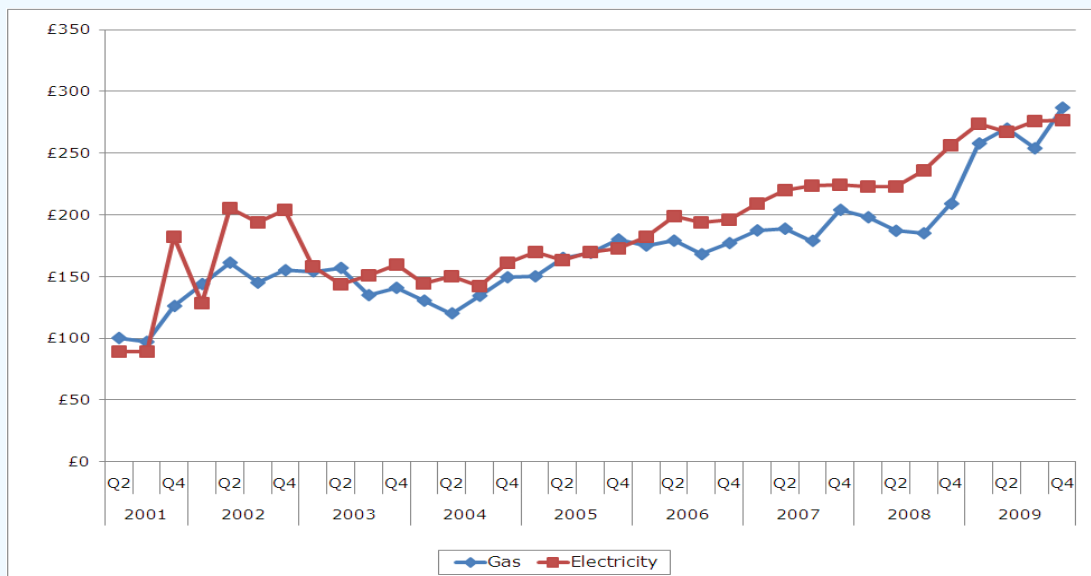
2.6. Figure 1 above shows the pattern of energy debt in 2009 compared to previous years. At the end of 2009, 4.0% of electricity customers (1.1 million customers) and 3.6% of gas customers (0.8 million customers) were repaying a debt. However, it should be noted that the debt figures presented in this chapter only include those customers who have had their PPM set to collect a debt or who are on a debt repayment programme lasting longer than 13 weeks. It does not therefore capture those customers who still have outstanding energy bills but have not entered into a repayment arrangement with their supplier.

2.7. Around 50% of electricity customers and 44% of gas customers repaying a debt did so through a PPM. The number of PPM customers repaying a debt decreased by 11% for electricity and 3% for gas compared to 2008.

### Level of energy debt

2.8. Worryingly, the average level of debt has continued to rise. Figure 2 below shows that the average level of electricity debt at the end of 2009 was £277 - £21 higher than at the end of 2008. In gas it had risen by £78 to £287 - an increase of 37%. The increase in gas debt is greater than in previous years and means that gas debt is now higher than electricity debt. It is likely that the effects of the economic recession combined with a particularly cold winter at the start of 2009 have contributed to this.

**Figure 2: Average level of customer debt over time**



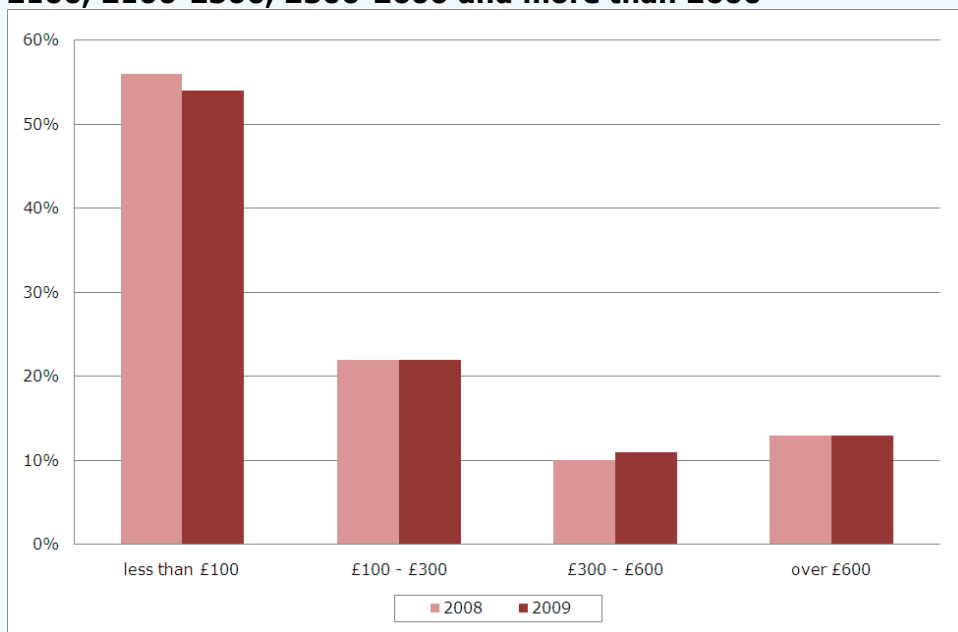
**Source: Ofgem, supplier data**

2.9. A further illustration of the rising level of debt is the increase in the percentage of gas customers repaying larger debts in 2009 compared to 2008. Figure 4 below shows that in 2009 52% of indebted gas customers owed over £100, compared to

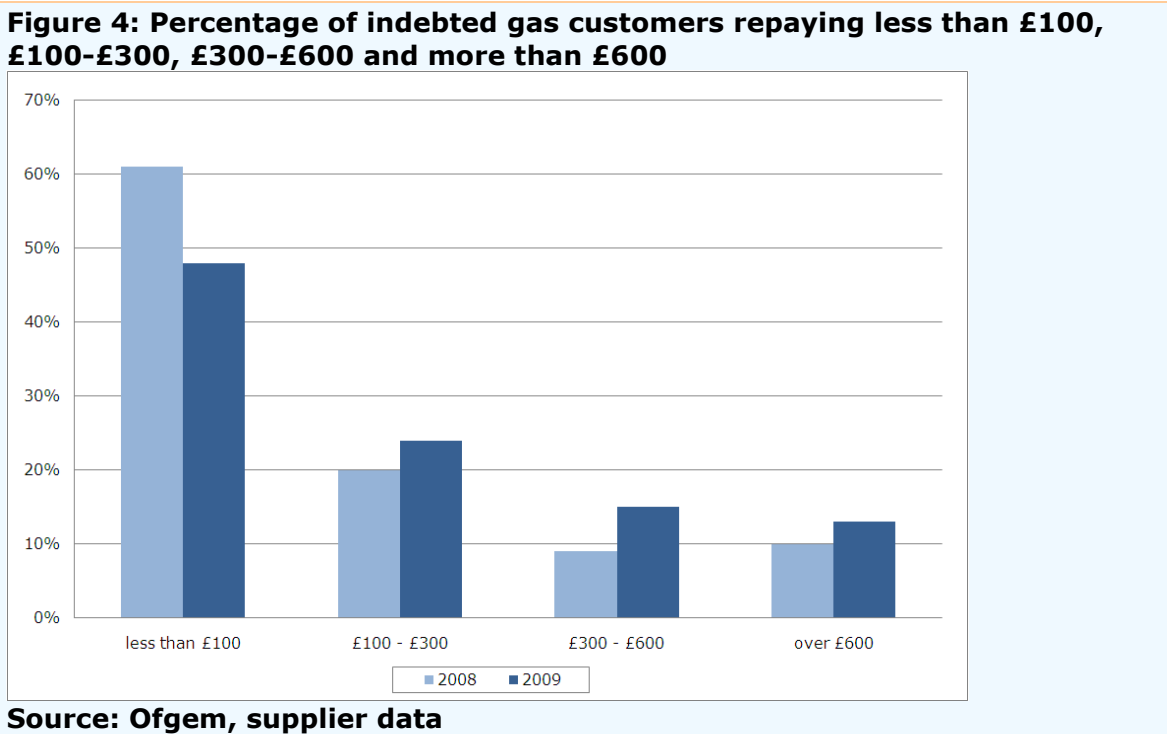
39% in 2008. In contrast, the percentage of electricity customers repaying debts of more than £100 remained static in 2009, as illustrated in Figure 3 below.

2.10. Suppliers tell us that this is probably because customers are delaying payment of their energy bills due to other priorities, which is increasing their debt levels over time. In these challenging economic conditions, suppliers need to do all they can to build on the best practice set out in our recent review of protection for vulnerable customers from disconnection and in our review of suppliers' approaches to debt management and prevention. This includes proactively identifying and contacting customers struggling to pay their energy bills early to help avoid debts becoming unmanageable.

**Figure 3: Percentage of indebted electricity customers repaying less than £100, £100-£300, £300-£600 and more than £600**



**Source: Ofgem, supplier data**



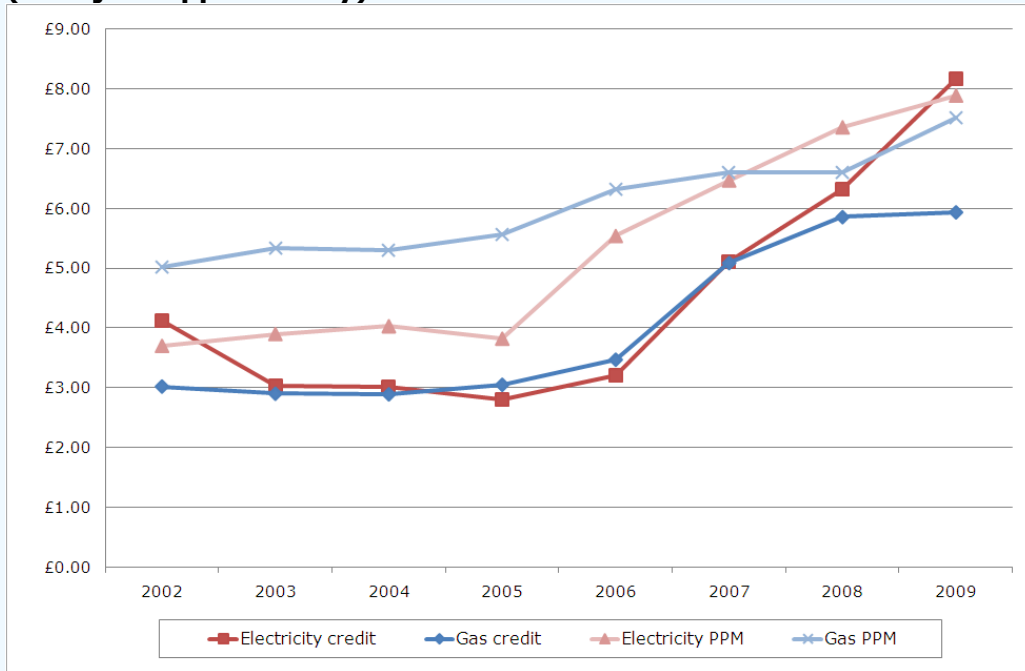
### Debt repayment rates

2.11. The following provides information on the average weekly debt repayment rates of the six major domestic energy suppliers<sup>6</sup>. Overall average weekly debt repayment rates have continued to increase in 2009 across both fuels and payment types, with the exception of credit customers repaying a gas debt. Figure 5 shows that electricity repayment rates for credit and PPM customers increased by 29% and 7% respectively. Gas repayment rates for PPM customers increased by 14%, while repayment rates for gas credit customers remained virtually unchanged.

2.12. In addition, there has been a 42% increase in the percentage of electricity customers repaying a debt at a rate of more than £6 a week between 2008 and 2009. Over the same period, there was a 65% increase in the percentage of gas customers repaying a debt at this rate.

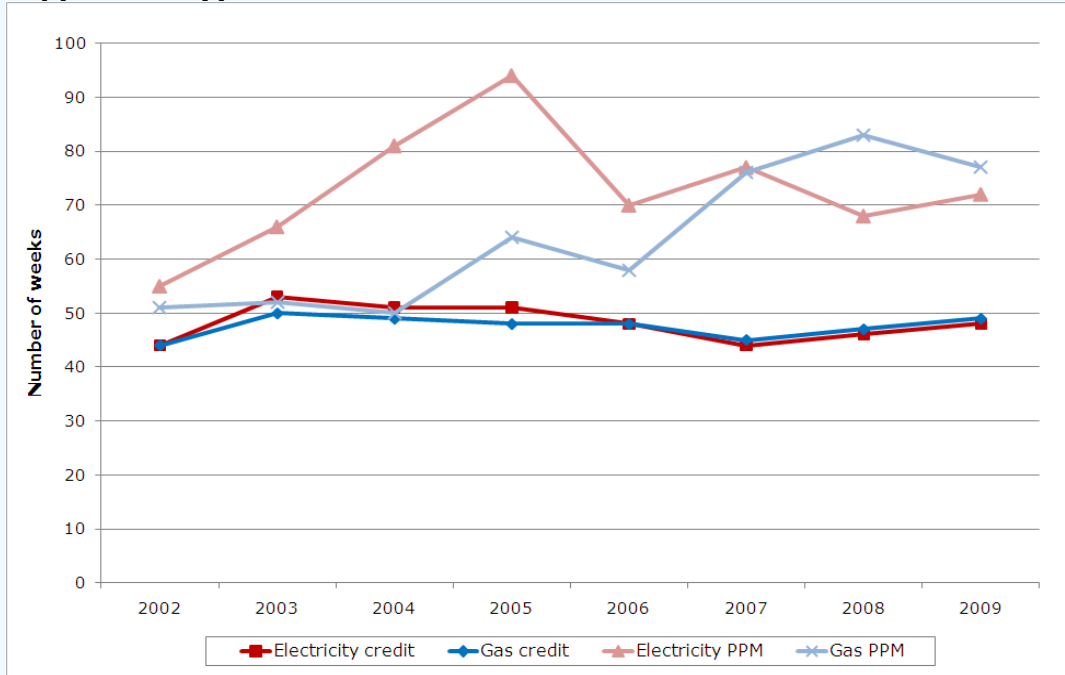
<sup>6</sup> Since 2007, we have not included small suppliers' repayment rates in our analysis because their inclusion potentially distorts the overall picture, given that they only have a very small number of customers repaying a debt and they are not necessarily representative of the broader market. Prior to 2007, small suppliers' repayment rates are included in the figures.

**Figure 5: Average electricity repayment rates for credit and PPM customers (6 major suppliers only)**



Source: Ofgem, supplier data

**Figure 6: Average repayment period for credit and PPM customers (6 major suppliers only)**



Source: Ofgem, supplier data

2.13. As shown in Figure 6 above, the length of the average weekly repayment period remained relatively stable for electricity and gas customers between 2008 and 2009. This implies that while debt levels are rising, suppliers are not substantially increasing the length of time the customer has to pay back the debt which results in the average weekly repayment amount increasing. Of particular concern is that the average repayment period for gas PPM customers fell by 6 weeks, from 83 weeks to 77 weeks. As a higher percentage of PPM customers are on low incomes this is particularly concerning.

2.14. In accordance with their supply licence conditions, suppliers must take domestic customers' ability to pay into account when calculating instalment amounts. As already mentioned, we have developed some key Principles that suppliers should use when assessing ability to pay. We will take the adoption of these key Principles into account when considering suppliers' adherence to their obligations.

2.15. Ofgem will continue to monitor this area closely as ensuring customers have manageable repayment arrangements is essential, particularly in the current economic climate. We stand ready to take enforcement action if suppliers do not comply with their obligations in this area and we are already formally investigating British Gas.

### 3. Disconnection for non-payment of debt

This chapter identifies the level of gas and electricity disconnections during 2009 and provides an analysis of the overall disconnections picture, including the performance of each of the six major suppliers in this area. Ofgem's work to improve performance in this area is also highlighted in this chapter.

3.1. When a supplier becomes aware or has reason to believe that a domestic customer is having (or will have difficulty) paying their bills, the supply licences include a requirement to offer alternative methods of payment. Payment methods could include payment by instalment, through a prepayment meter or direct deductions from the customer's social security benefit (known as Fuel Direct). Suppliers are also prohibited, during Winter (October to March), from knowingly disconnecting customers of pensionable age where they live alone or with other pensioners and/or children. Suppliers must also take all reasonable steps to avoid disconnecting during Winter premises where the customer or occupants include a person who is disabled, chronically sick or of pensionable age<sup>7</sup>. Members of the Energy Retail Association<sup>8</sup> (ERA) have also introduced further voluntary protections through their code of practice known as the "Safety Net". Among other protections, this precludes the disconnection of vulnerable customers at any time.

3.2. In October 2009, Ofgem published a review of the protections for vulnerable customers from disconnection, which was carried out jointly with Consumer Focus. Based on this review, Ofgem was satisfied that suppliers' policies and practices to identify vulnerable customers and prevent them from being disconnected were largely satisfactory. However, whilst there is a large amount of good practice across suppliers, Ofgem identified some areas of weakness and inconsistency between suppliers that needed to be addressed.

3.3. As a result of the review, Ofgem secured improvements to the industry's Safety Net, including an independent audit of compliance with the Safety Net and a commitment to reconnect customers who are subsequently identified as vulnerable as soon as possible and usually within 24 hours. In addition, Ofgem recently consulted on an amendment to the electricity and gas supply licences to make it clear that suppliers must take all reasonable steps to identify the status of customers and the occupants of premises prior to disconnection<sup>9</sup>. This measure is aimed at ensuring suppliers take proactive steps to identify vulnerable customers and stop disconnection in error. Ofgem also provided guidance on the types of proactive steps it would expect suppliers to take prior to disconnection, including visiting the

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<sup>7</sup> Pursuant to licence conditions 27.10 and 27.11 of the standard gas and electricity supply licence conditions.

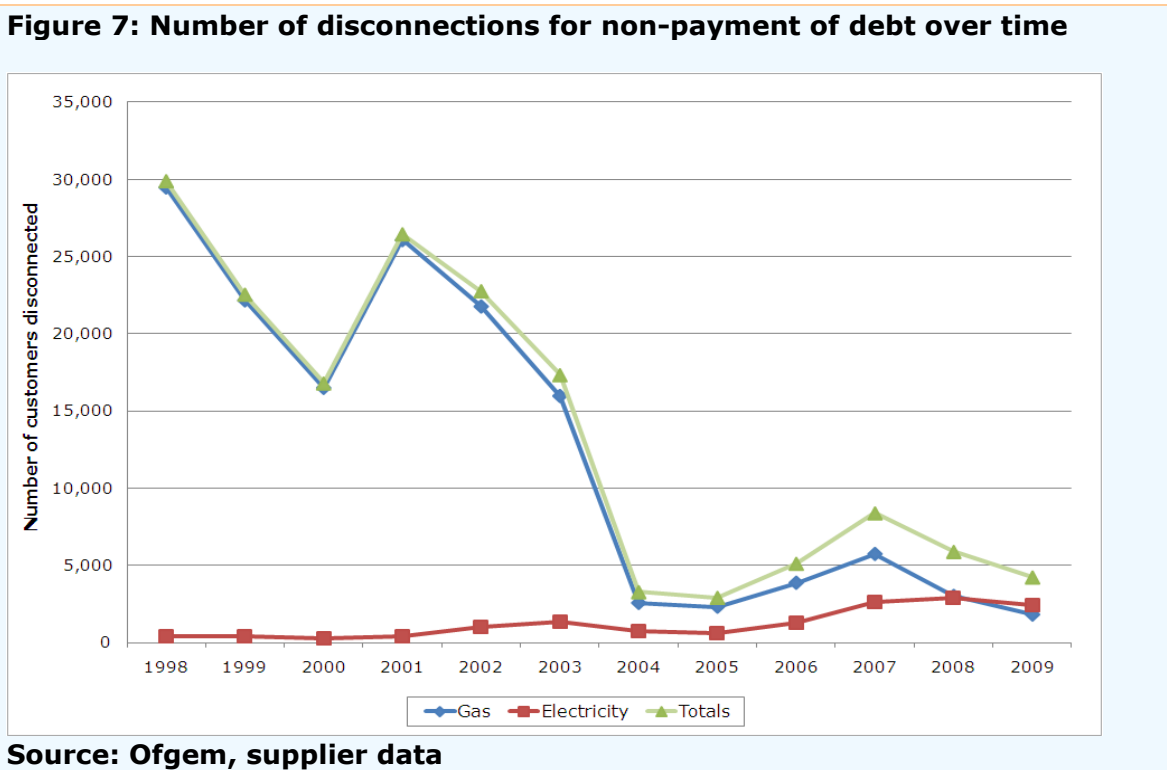
<sup>8</sup> The ERA works on behalf of its six member suppliers. Its members are British Gas, EDF Energy, E.ON, npower, Scottish Power and SSE.

<sup>9</sup> Statutory consultation letter to amend SLC 27:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=168&refer=Sustainability/SocAction/Publications>

customer’s premises. Ofgem published the statutory consultation for this amendment on 15 July 2010.

3.4. As figure 7 illustrates, there was a sharp reduction in the total number of disconnections for non-payment of debt between 2001 and 2004. The main reasons for this were an increased pressure on suppliers to disconnect only as a last resort, the installation of PPMs as an alternative to disconnection, the introduction of the ERA’s voluntary Safety Net which barred the disconnection of vulnerable customers at any time of year, British Gas' decision to stop disconnections between 2003 and 2008, E.ON’s decision to temporarily stop disconnections from July 2008 and npower’s decision to stop disconnections during the winter.

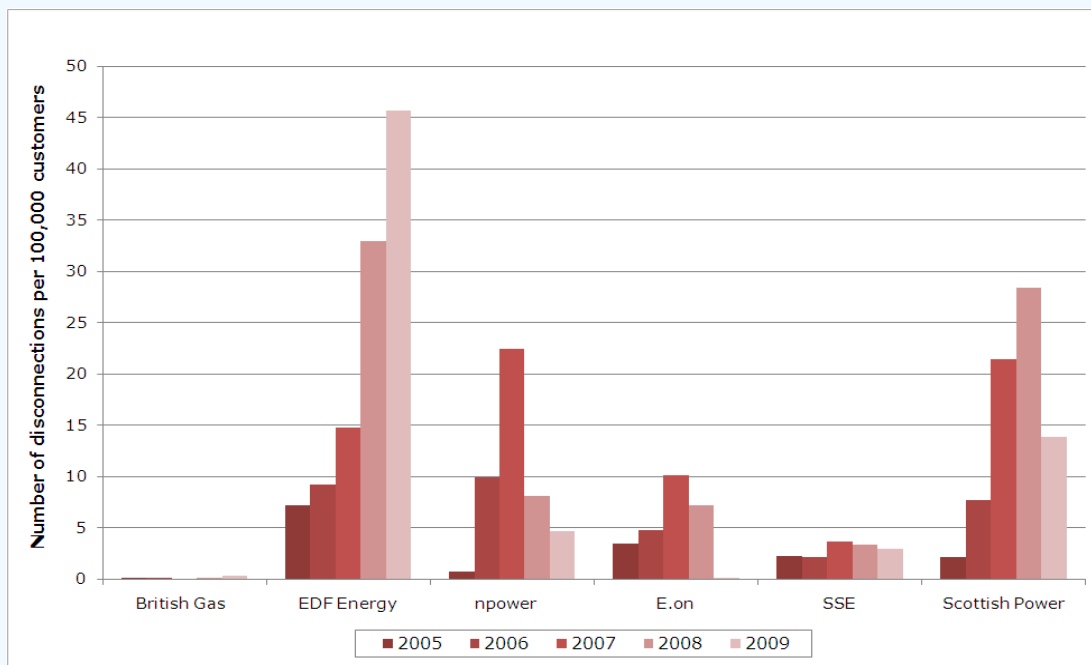


3.5. Disconnections started to increase from 2005, but fell back again in 2008 and 2009. In 2009 there were 4,227 disconnections - a 28% reduction compared to 2008. Of these, 2,433 (a decrease of 16% compared to 2008) were for non-payment of electricity and 1,794 (a decrease of 40%) were for non-payment of gas.

### Electricity disconnections by supplier

3.6. SSE, npower, Scottish Power, and E.ON all reduced their electricity disconnection levels in 2009, by 11%, 45%, 53%, and 100% respectively. This is illustrated in Figure 8 below, which shows the number of electricity disconnections per 100,000 customers undertaken by each supplier.

**Figure 8: Electricity disconnections per 100,000 customers by the six major suppliers**



Source: Ofgem, supplier data

3.7. E.ON reported the largest decrease in electricity disconnections due to its suspension of all domestic disconnections since July 2008. Still in effect, the suspension was instigated following an internal review which identified that a number of vulnerable customers had been disconnected. E.ON tells us that it has now implemented a number of measures to address weaknesses that its review identified and that it will not recommence disconnection for debt until it is confident that its processes are sufficiently robust to prevent this situation arising again.

3.8. npower continued with its policy of suspending domestic electricity disconnections during winter, significantly reducing its annual disconnection figure. No electricity disconnections were carried out between November 2008 and the end of March 2009, or between October 2009 and the end of March 2010.

3.9. British Gas had temporarily suspended all disconnections for debt from 2003, but restarted, albeit in very low numbers, in 2008. In 2009 it disconnected 17 electricity customers for non-payment of debt – compared to 3 in 2008.

3.10. In contrast, EDF Energy reported a 40% increase in electricity disconnections in 2009. It had the most electricity disconnections of all suppliers, representing 65% of all electricity disconnections. We had identified EDF Energy’s relatively high number of electricity disconnections in our annual report for 2008, published in August 2009, and our quarterly reports published in November 2009 and January 2010. Following discussions with EDF Energy, the company tells us that for safety reasons it has

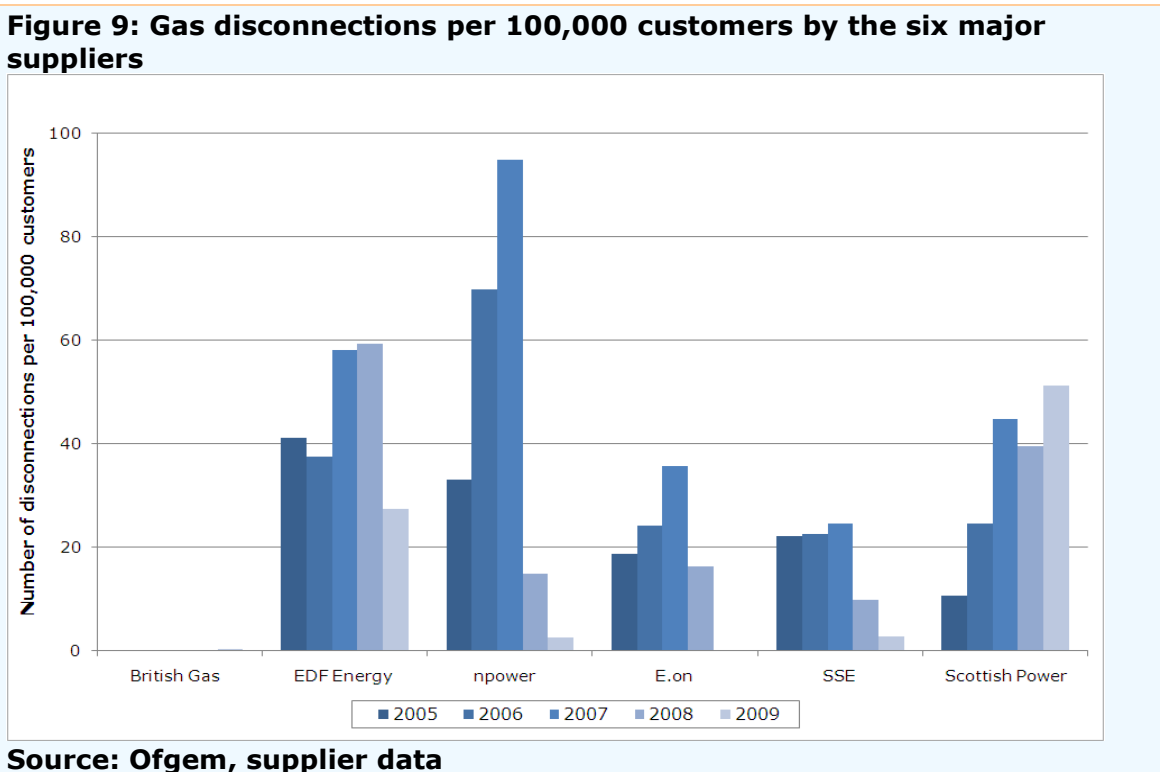


previously been unable to install a PPM where the meter is housed in a communal cupboard/in-take room (common in flats and areas, such as London, where there is a high ratio of flats and EDF Energy is the ex-incumbent supplier). As a result, it has disconnected the customer instead.

3.11. In an attempt to resolve the problem, in the second half of 2009 EDF Energy conducted a limited trial to temporarily install the PPM in the in-take room with a limited amount of credit and make an appointment to re-site the PPM within the customer’s property. Following the trial, EDF Energy has recently informed us that it will build its trial into its usual business practices with some restrictions on the number of visits it will make to the property to re-site the meter. While this is welcome, we have yet to see a substantial fall in its disconnection levels. As a result, we have written to EDF Energy to seek a meeting at a senior level to address this issue. We will continue to closely watch EDF Energy’s disconnection levels.

### Gas disconnections by supplier

3.12. EDF Energy, SSE, npower and E.ON all reduced the number of gas customers disconnected in 2009 by 51%, 71%, 83% and 100% respectively. This is illustrated in figure 9 below, which shows the number of gas disconnections per 100,000 customers undertaken by each supplier.



3.13. As with its electricity disconnections policy, E.ON ceased all gas disconnections from July 2008 and will not recommence disconnecting for non-payment of debt until it is satisfied that its processes are robust enough to stop any vulnerable customer being disconnected. npower significantly reduced its gas disconnections during winter, disconnecting only three customers between October 2009 and the end of March 2010, which largely explains its decrease in the number of gas disconnections. Following its recommencement of disconnections, British Gas disconnected 37 gas customers in 2009, compared to 8 in 2008.

3.14. Compared to other suppliers, Scottish Power disconnected a relatively high number of gas customers in 2009 - 1,013 gas customers, 56% of all gas disconnections. Its disconnection rate also increased during 2009. Scottish Power tells us that its high number of gas disconnections are largely the result of not being able to fit a PPM as an alternative to disconnection when it makes its final visit to the customer's property to disconnect. For safety reasons, suppliers reconnecting gas customers must do a 'purge and relight'<sup>10</sup>, which Scottish Power are unable to do without the customer present. As part of our 2010 review of suppliers' approaches to debt management and prevention, we identified a number of measures other suppliers had adopted to tackle this issue. On the back of this, Scottish Power has told us it is investigating the possibility of undertaking a trial to install gas PPMs which can be made operational upon an appointment with the customer at their premises. We are disappointed that Scottish Power has not acted on this before now and are meeting with them to encourage urgent action to resolve this and any other issues responsible for their relatively high level of disconnections. We will closely monitor Scottish Power's progress.

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<sup>10</sup> For safety reasons, where a gas supply has been interrupted or a meter reconnected, it is necessary to ensure that the air or gas/air mixture is purged out of the pipes and all gas appliances are relit and burning correctly.

## 4. Prepayment meter customers

This chapter focuses on prepayment meters (PPM), including information on the number of PPM customers and the reason for the installation of PPMs in 2009. Monitoring PPMs is an important area of Ofgem's work. In this chapter we have detailed recent initiatives we have taken in this area.

4.1. Prior to disconnecting a customer, suppliers are first required through their supply licence to take all reasonable steps to recover outstanding charges by using a PPM where it is safe and reasonably practicable in all of the circumstances for the domestic customer to do so<sup>11</sup>. PPMs can be a valuable alternative to disconnection and previous research conducted by Ofgem has shown that many customers like them because they provide a useful mechanism for budget management and debt avoidance. However, paying through a PPM is typically more expensive than paying by direct debit and a relatively high proportion of customers on low incomes use them. With this in mind, Ofgem monitors their use carefully.

4.2. It is recognised that PPM customers present a higher cost to serve for suppliers than customers on other payment methods. However, Ofgem's Energy Supply Probe, the initial findings of which were published in October 2008, found that PPM customers were paying a price premium compared to direct debit (DD) customers which did not appear to have a sound cost justification. As a result, Ofgem has sought to ensure that the difference in the price paid by PPM customers compared to those paying by standard credit and DD is cost reflective. New licence conditions to address unfair price differentials for domestic customers came into effect from 1 September 2009<sup>12</sup>. In July 2010 Ofgem published a report that shows the result of the new conditions has seen price differences eroded<sup>13</sup>. PPM customers now pay £19 less, on average, than customers paying by standard credit (down from £55 more in October 2007) and average premiums for PPMs compared with DD have fallen from £111 to £69 since October 2007. We will continue to monitor the differences in charges for different payment methods and will take action if these differences are found to not be cost reflective.

4.3. Figure 10 below shows that there was an overall increase in the number of customers paying through a PPM in 2009. Having been static since 2004, the number of electricity PPM customers increased from 3.6 million in 2008 to 3.8 million in 2009. The number of gas PPM customers continued to increase in 2009 – from 2.4 million in 2008 to 2.6 million in 2009. Historically the number of gas PPM

<sup>11</sup> Pursuant to licence condition 27.9 of the standard gas and electricity supply licence conditions.

<sup>12</sup> Addressing undue discrimination, June 2009:

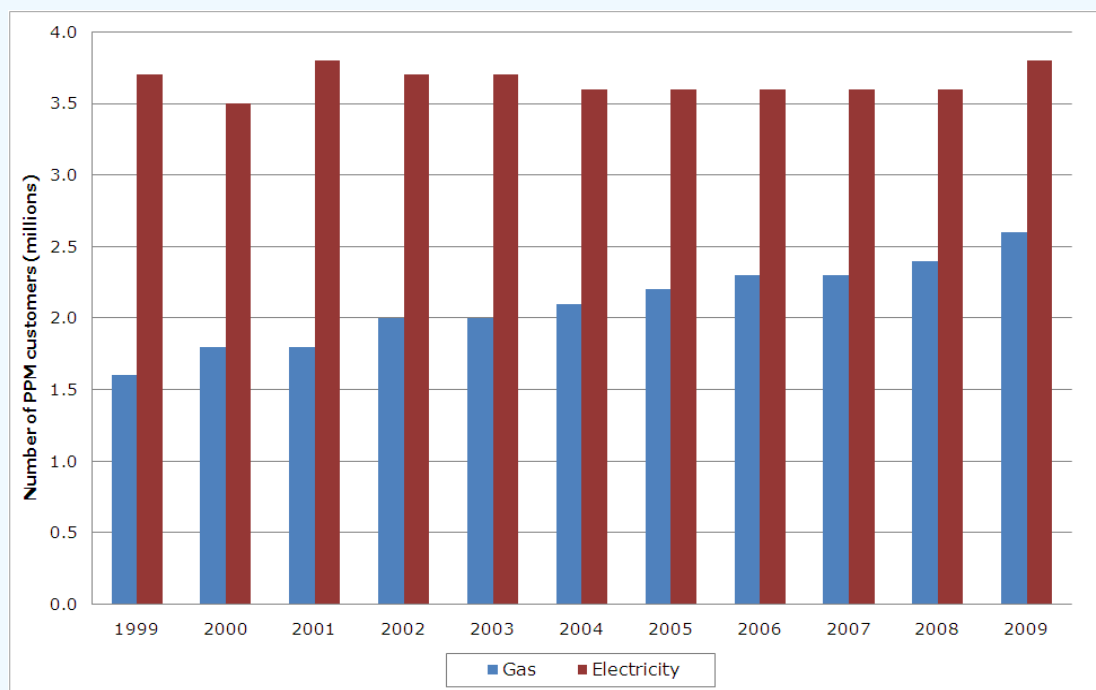
<http://www.ofgem.gov.uk/MARKETS/RETMKTS/ENSUPPRO/Documents1/Addressing%20Undue%20Discrimination.pdf>

<sup>13</sup> Update on Probe Monitoring: tariff differentials and consumer switching, July 2010:

[http://www.ofgem.gov.uk/MARKETS/RETMKTS/ENSUPPRO/Documents1/Update%20on%20Probe%20Monitoring\\_FINAL.pdf](http://www.ofgem.gov.uk/MARKETS/RETMKTS/ENSUPPRO/Documents1/Update%20on%20Probe%20Monitoring_FINAL.pdf)

customers has always been lower than in electricity, due to difficulties arising from safety issues associated with fitting gas PPMs and the number of electricity customers off the gas grid. However, these issues have been gradually addressed and gas PPMs have become a more common alternative to disconnection.

**Figure 10: Number of PPM customers**

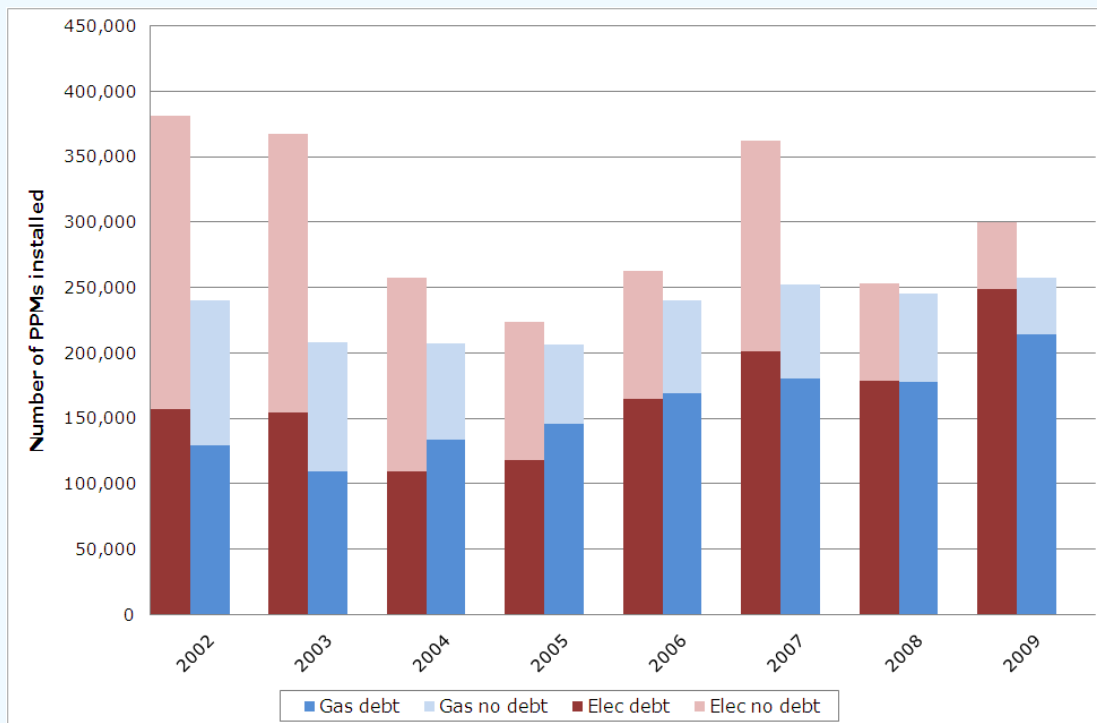


Source: Ofgem, supplier data

### Number of PPMs installed for debt

4.4. Figure 11 shows that for both fuels the number of PPMs installed to recover debt increased in 2009. This is in contrast to the overall decline between 2007 and 2008. The number installed to recover electricity debt increased in 2009 by 39%, compared to 2008, while the number installed to recover gas debt increased by 20%.

4.5. Ofgem recognises concerns around the increasing numbers of PPMs installed for debt, given that these typically attract higher tariff rates compared to those that pay by direct debit. However, it is likely that installation of PPMs is being used as an alternative to disconnection. In addition, as mentioned in paragraph 4.2 above, following action taken by Ofgem, tariff differences have been significantly reduced with PPM customers now paying less, on average, than those that pay by standard credit. This is an area Ofgem continues to monitor and will take action if tariff differences are found to not be cost reflective.

**Figure 11: Number of electricity and gas PPMs installed in 2009 by reason**

Source: Ofgem, supplier data

4.6. In 2009 the number of electricity PPMs installed for reasons other than debt decreased by 30%. This follows the decreasing trend seen since 2004<sup>14</sup>. There was a similar fall of 36% for gas PPMs.

## Debt blocking and the debt assignment protocol

4.7. Under their licence conditions, suppliers can block domestic customers from switching if the customer still has an unpaid energy bill 28 days after it has been formally demanded. Prior to January 2010, the Debt Assignment Protocol (DAP) allowed PPM customers with a gas or electricity debt below £100 to switch supplier and transfer their debt to their new supplier. However, since its introduction in 2004, the DAP has been very rarely used.

4.8. As part of Ofgem's package of Probe remedies, an amendment to the supply licence was introduced in January 2010 to extend the DAP by allowing PPM customers who owe up to £200 to switch supplier. Vulnerable customers are disproportionately represented among those in debt and on a PPM. This amendment allows these customers to get a cheaper energy deal with an alternative supplier,

<sup>14</sup> The 2007 figure is distorted due to E.ON's use of data which was likely to have included meter installation under its accelerated token PPM replacement programme. This resulted in an over-estimated figure for electricity PPMs installed for reasons other than debt in 2007.

even if they are in debt up to £200. We will monitor the impact of these changes to help inform our thinking on the scope for further action.

## Token PPMs

4.9. Token PPMs are older technology meters which need to be recalibrated manually at the customer's premises following a price change. Suppliers have been rolling out programmes to replace these older meters with newer technology PPMs. Ofgem has worked with suppliers to ensure they have appropriate arrangements in place as part of their phase-out programmes, to ensure that customers are not left off supply. As part of this work we have developed principles detailing the minimum steps that we would expect to be included in any token PPM withdrawal programme. These can be found in our update published on 2 February 2009<sup>15</sup>.

4.10. There were around 66,000 token PPMs remaining in customers' premises across all suppliers at the end of December 2009; this is a reduction of over a million since Ofgem published its December 2006 statement of good practice and a reduction of nearly 200,000 during 2009.

4.11. All suppliers are coming to the end of their programmes to replace these meters with PPMs that can be remotely updated when there is a price change. Those that still remain are largely a result of persistent problems gaining access to replace the meter or are in vacant properties. Ofgem welcomes suppliers' continuing efforts to minimise debt build-up through the timely recalibration of token PPMs and through their replacement programmes. We particularly welcome Scottish Power's announcement last year that it has replaced all its token PPMs in occupied premises. We will continue to monitor suppliers' performance in this area throughout 2010 and will publish a further update later this year.

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<sup>15</sup> Token prepayment meter customer issues – open letter:  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=129&refer=Sustainability/SocAction/Publications>

## 5. Help for vulnerable customers

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

### Priority Services Register

5.1. Under their licence conditions, domestic suppliers have an obligation to maintain a Priority Services Register (PSR) of all customers who are of Pensionable Age, disabled or chronically sick, where these customers have requested, either in person or via someone asking on their behalf, to be added to the register. Suppliers must provide advice and information, free of charge, on the free services available to PSR customers. Suppliers must, at least once a year, take all reasonable steps to make their domestic customers aware of the PSR and how eligible customers can be registered<sup>16</sup>.

5.2. The free services to be provided by suppliers to PSR customers, where requested by the PSR customer, include:

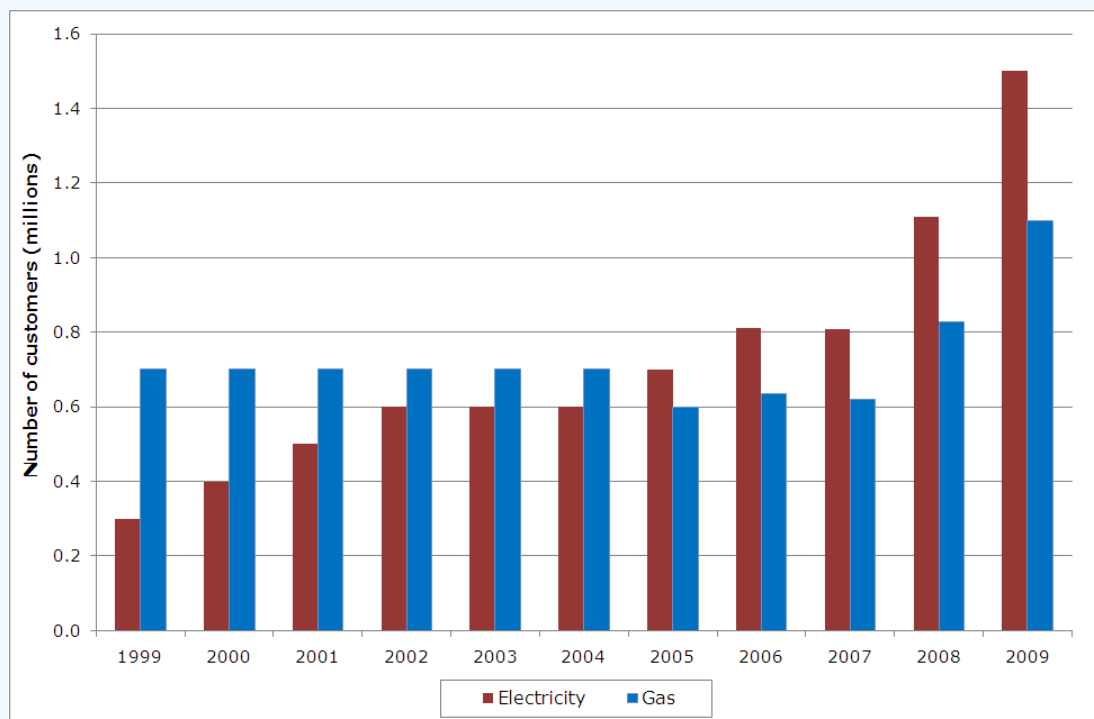
- quarterly meter readings where the customer is unable to read the meter;
- a password to be used by any person acting on behalf of the supplier;
- the relocation of a PPM to ensure it is accessible; and
- the provision of bills and information relating to the customer's account in an accessible format for blind, partially sighted, deaf or hearing-impaired customers.

In addition, some suppliers use their PSRs to help target other forms of assistance such as their social programmes.

5.3. In 2009 the number of customers on suppliers' PSRs increased by 0.4 million for electricity and 0.3 million for gas. As shown in figure 12, this significant increase follows a similar increase in 2008. Suppliers tell us that this upward trend is the result of a continuing increase in their promotion of the PSR. Ofgem welcomes suppliers' efforts in this area and encourages suppliers to continue to increase awareness of the PSR. Identifying customers in need of additional support is an essential step in ensuring that the help available is targeted at those most in need.

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<sup>16</sup> Pursuant to licence conditions 26.4 to 26.6 of the standard gas and electricity supply licence conditions.

**Figure 12: Number of customers on suppliers' Priority Service Register**

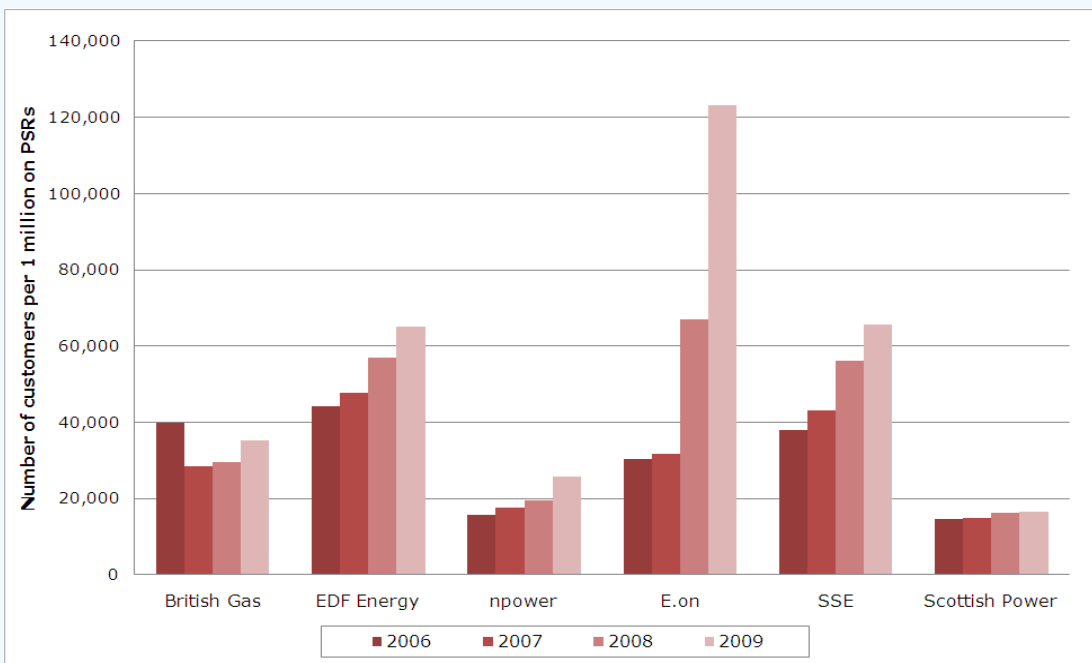
**Source: Ofgem, supplier data**

5.4. Figures 13 and 14 below show the number of customers (per 1 million) on each suppliers' gas and electricity PSRs. Each of the six major suppliers reported an increase in the number of customers registered on their PSRs during 2009.

5.5. Per 1 million customers, E.ON has the highest number of customers registered on its PSR, followed by SSE. E.ON reported an 80% increase in the number of electricity customers and a 65% increase in the number of gas customers registered on its PSR since 2008 - the biggest increase during 2009 of any supplier. SSE, British Gas and npower also saw significant increases in 2009 - 22%, 26% and 26% respectively. However, npower still has the second lowest number of customers registered on its PSRs. Although Scottish Power increased the number of customers on its PSR by 17% in 2009, it continues to have the lowest number of customers on its PSR of all the six major suppliers. We encourage these suppliers to improve their performance in this area.

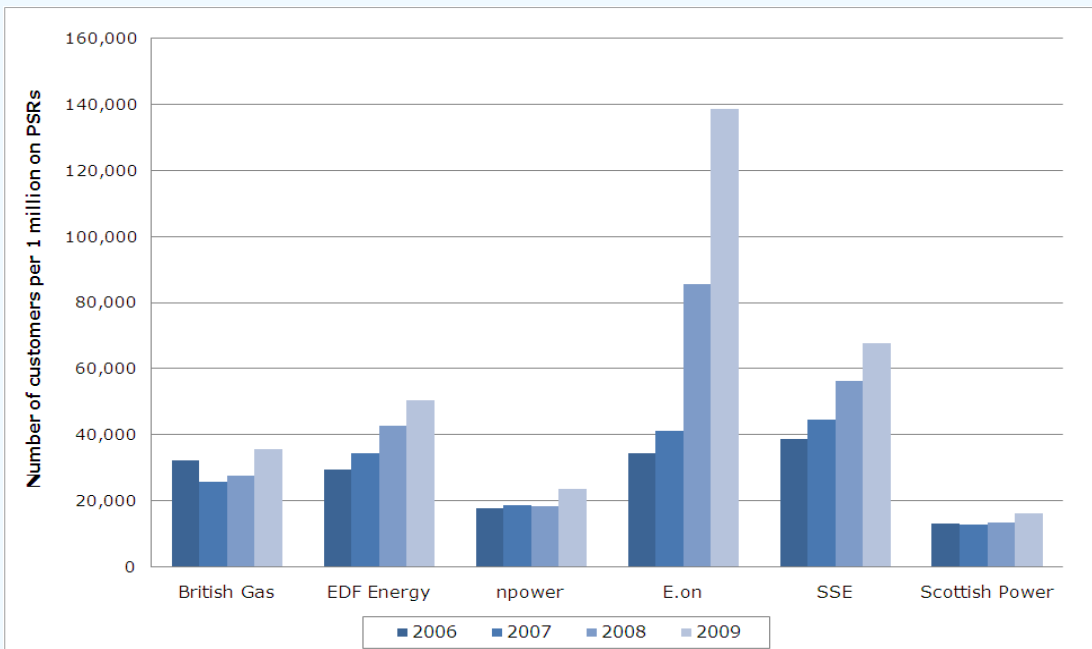


**Figure 13: Number of electricity customers on each suppliers' Priority Services Register per 1 million customers**



Source: Ofgem, supplier data

**Figure 14: Number of gas customers on each suppliers' Priority Services Register per 1 million customers**



Source: Ofgem, supplier data

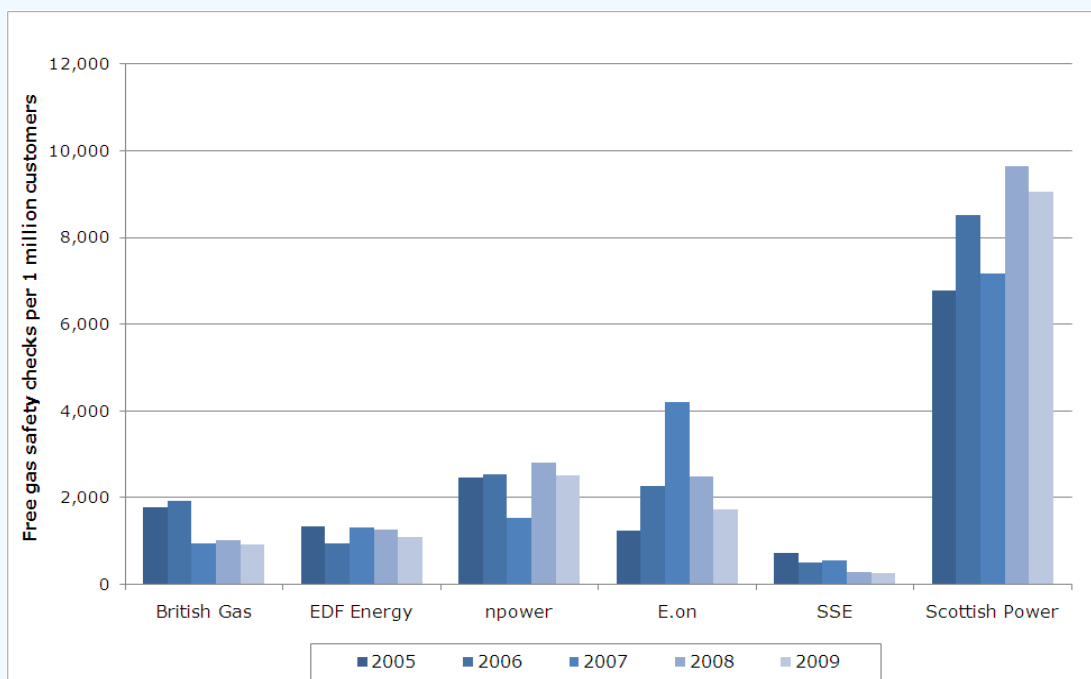
### Free gas safety checks

5.6. Suppliers are obliged under their licence conditions<sup>17</sup> to provide a free gas safety check upon request to households containing children under 5 years old, and domestic customers of Pensionable Age, disabled or chronically sick, living alone or living with others of Pensionable Age, disabled, under 18 or chronically sick, when they are:

- living in households where the landlord is not responsible for arranging a gas safety check
- those in receipt of means tested benefits and;
- households which have not had a gas safety check in the last 12 months or such longer period as may be directed by the Authority.

5.7. In 2009 there was a 13% decrease in the number of free gas safety checks. All suppliers reported a decrease in the number of checks carried out. However, Scottish Power has continued to perform much better than other suppliers in this area as illustrated in figure 15 below. This is due to its proactive offering of free gas safety checks to all customers on its PSR, instead of just those required under its licence obligation.

**Figure 15: Number of free gas safety checks per 1 million customers**



Source: Ofgem, supplier data

<sup>17</sup> Pursuant to licence condition 29 of the standard gas supply licence conditions.

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## Energy efficiency

5.8. Energy efficiency advice and information can lead to the installation and adoption of energy efficiency measures in the home, helping to reduce customers' bills through lowering their consumption.

5.9. Suppliers are required to deliver on carbon reduction targets under Government schemes. These are the Carbon Emissions Reduction Target (CERT) scheme which is the Government's key energy and carbon emissions reduction programme for the domestic sector, and the Community Energy Savings Programme (CESP), a new scheme to help carbon reduction in the domestic sector that came into force on 1 September 2009.

5.10. Under CERT, energy suppliers are required to deliver on carbon emissions reduction targets through the promotion of, amongst other things, energy efficiency measures. At least 40% of the carbon emissions reduction target must be achieved through the provision of measures to the priority group, comprised of consumers who are in receipt of specific income related benefits or tax credits, or who are over the age of 70. Under CESP, gas and electricity suppliers and electricity generators are required to deliver energy saving measures to domestic customers in specific low income areas of Great Britain.

### *Energy efficiency information*

5.11. Suppliers are also obliged under their licences<sup>18</sup> to provide information about the efficient use of gas and/or electricity to domestic customers, where such customers request it. This information can be provided through a telephone service or through website publication. It must include information to enable domestic customers to make an informed judgment about measures to improve the efficiency with which they use gas or electricity and also other sources of information and assistance about measures to improve the efficiency with which they use gas and/or electricity. This includes information about financial assistance available through government schemes to improve energy efficiency in the home. For the purposes of reporting this data we include verbal or written information including general information given by customer service staff, but not website downloads.

5.12. Ofgem specifically collects data on suppliers' provision of energy efficiency information to certain groups, such as those on the supplier's PSR and those in debt, who may gain particular benefit from this help. PSR customers may have high consumption levels where perhaps, because of their age or disability, they need to spend longer periods in the home and/or need to heat their homes to a higher temperature. These customers may, for the same reasons, be in fuel poverty and may ration fuel consumption to try to avoid getting into debt.

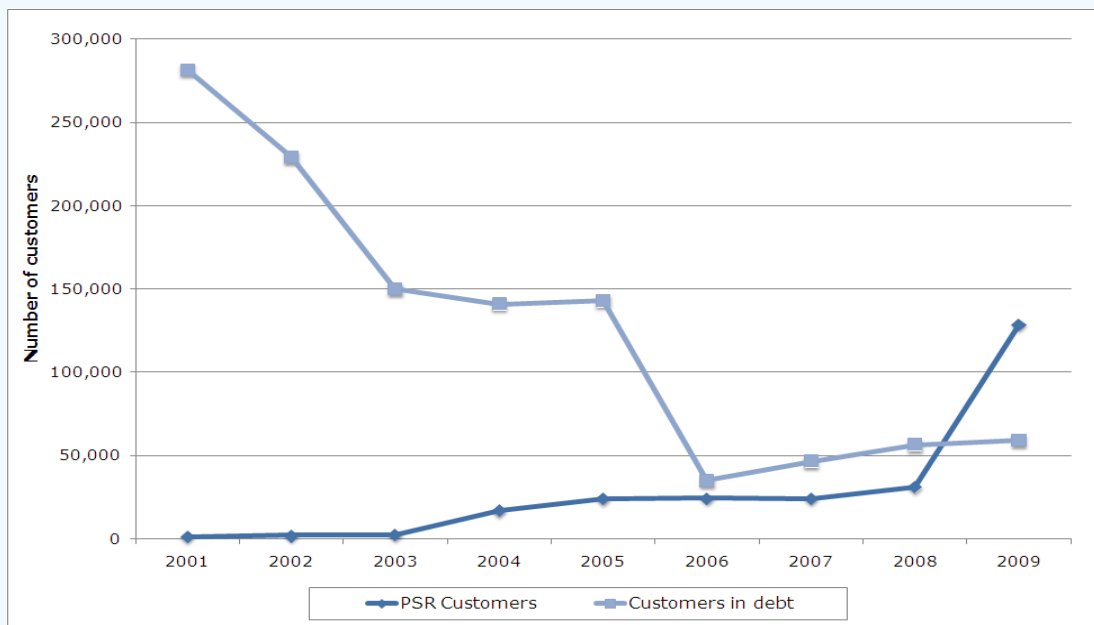
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<sup>18</sup> Pursuant to licence condition 31 of the standard gas and electricity supply licence conditions.

5.13. As illustrated in figure 16, there has been a significant increase in the number of PSR customers receiving energy efficiency information in 2009 since 2008 (an increase of 97,800 customers). This can mainly be attributed to a very notable increase by npower in the provision of this information to PSR customers this year. npower has informed us that this is the result of a decision to send energy efficiency information to all its PSR customers in 2009. In addition, in 2010 all npower's PSR customers will receive energy efficiency information as part of joining the register. Among other suppliers the proportion of PSR customers provided with this advice remains relatively low.

5.14. Suppliers are also obliged to provide energy efficiency information to customers struggling to pay their energy bills. Figure 16 shows that the provision of information to this group has remained fairly static in 2009. There were no big shifts in performance in this area across all suppliers between 2008 and 2009. We will write to all suppliers about this as we have concerns about whether suppliers are complying with their obligations in this area.

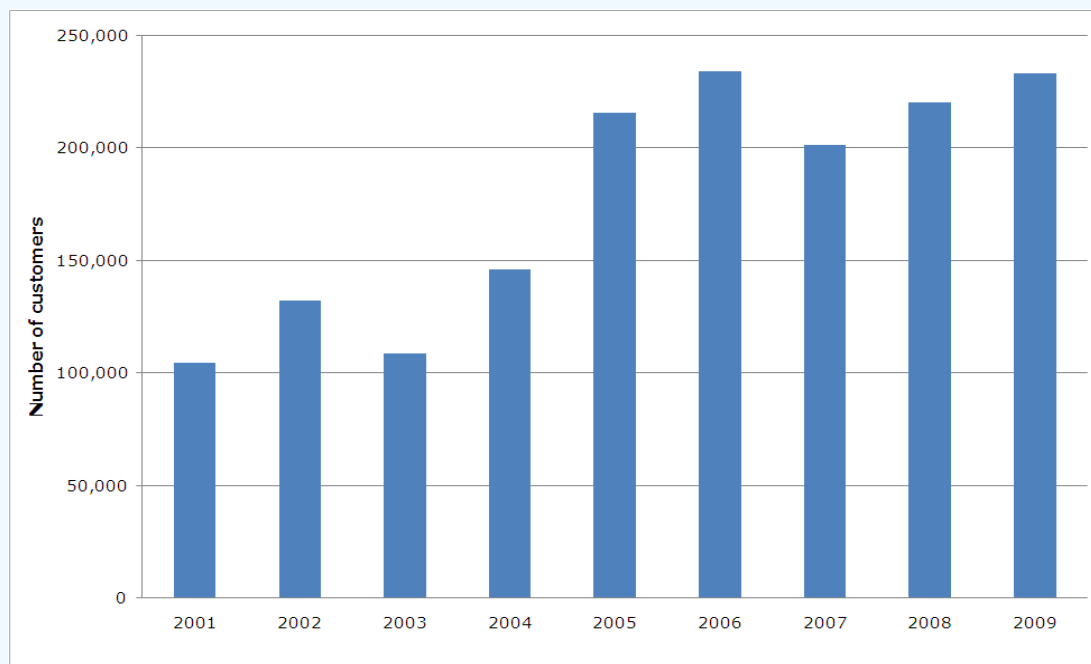
**Figure 16: Number of PSR customers and customers in debt given energy efficiency information**



Source: Ofgem, supplier data

*Energy efficiency advice*

5.15. Energy efficiency advice of a more specialist nature, delivered through a specialist advice line or qualified staff member, is also provided to customers. In 2009 0.5% of all customers received energy efficiency advice, with a 5% increase compared to 2008.

**Figure 17: Number of customers given energy efficiency advice**

**Source: Ofgem, supplier data**

5.16. In 2009 British Gas, npower, and EDF Energy reported increases in their provision of energy efficiency advice, by 37%, 40% and 137% respectively. EDF Energy tells us that its significant increase in the provision of advice is attributed to better communication of its advice service to customers. In contrast, SSE, Scottish Power and E.ON reduced their provision of energy efficiency advice by 7%, 27% and 34% respectively. In terms of providing energy efficiency advice as a proportion of total customer base, EDF Energy and SSE are the highest performers. EDF Energy and SSE both gave advice to around 0.8% of their customers in 2009.

#### *Energy efficiency advice going forward*

5.17. It is important that suppliers make every effort to provide customers with energy efficiency advice and information which can make a difference in helping customers reduce their bills. This is particularly important in the current economic climate which may have an especially adverse impact on vulnerable customers and those struggling to pay.

5.18. As a result of Ofgem's Energy Supply Probe, we have introduced measures that require suppliers, under their licence obligations, to provide debt management and energy efficiency advice to customers if the supplier objects to the customer switching on the grounds of debt. This new rule was effective as of 1 January 2010.

5.19. We will continue to monitor suppliers' performance in this area and urge them to proactively work with customers to improve energy efficiency and reduce consumption, where appropriate, as part of a holistic approach to tackling debt. Energy efficiency information and advice can help to alleviate fuel poverty, assist those in debt and can help to avoid fuel rationing. Suppliers can impact positively on these issues by informing customers, promoting energy efficiency measures and encouraging behavioural change.

## **Fuel Direct**

5.20. Fuel Direct (also known as Third Party Deductions) is a scheme administered by the Department for Work and Pensions (DWP) to facilitate direct, fixed amount payments for energy debt and ongoing consumption from specific social security benefits. The scheme is generally considered by suppliers and Government 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. For customers, Fuel Direct has a number of benefits, including automatic access to a low repayment level and an alternative method of repayment where other methods have not been successful and a PPM is not suitable. A customer has to be in debt to their energy supplier for at least one fuel type to be eligible.

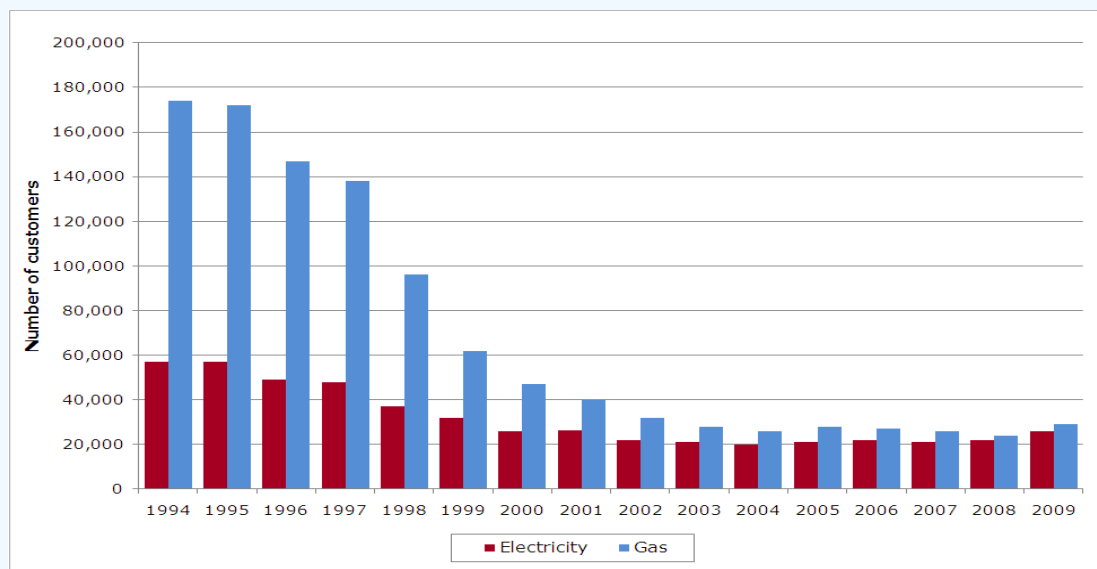
5.21. Suppliers have a licence obligation<sup>19</sup> to offer, amongst other things, Fuel Direct where they become aware or have reason to believe that a domestic customer is having difficulty (or will have difficulty) paying all or part of their energy bills.

5.22. As shown in figure 18, the number of customers on Fuel Direct declined significantly between the mid-1990s and 2002 - the decline being most accentuated for gas customers but with a similar trend in electricity. However, since 2002 the number of customers on Fuel Direct for both fuels has remained relatively static.

5.23. In 2009 the number of customers paying by Fuel Direct increased by 18% for electricity and 20% for gas. Despite these increases, figure 18 shows that the number of customers on Fuel Direct remains relatively low compared to the number of customers repaying a debt.

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<sup>19</sup>Pursuant to licence condition 27.6(a)(i) of the standard gas and electricity licence conditions.

**Figure 18: Number of customers on fuel direct**

**Source: Ofgem, supplier data**

5.24. As a result of the low number of customers on Fuel Direct, Ofgem investigated suppliers' approaches to Fuel Direct as part of its 2010 review of suppliers' approaches to debt management and prevention. The review found that Fuel Direct is used in very limited circumstances and not widely communicated to customers. Also, suppliers sometimes find the process of getting a customer onto Fuel Direct administratively complex and time consuming.

5.25. In line with their licence obligation, we expect suppliers to offer, amongst other options, the option of Fuel Direct to domestic customers when they become aware or have reason to believe that the domestic customer is having difficulty (or will have difficulty) paying their energy bills. To be eligible customers must have an energy debt of over £65.45 and be on qualifying Social Security benefits. If a customer meets these eligibility criteria, Ofgem considers that Fuel Direct will normally be the most suitable payment option where:

- 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.

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5.26. Ofgem has also asked suppliers to proactively consider putting their Fuel Direct customers on to their cheapest tariff, which may be their social tariff.

5.27. We are encouraged that the ERA and suppliers have recently met with the DWP to better understand Fuel Direct, and DWP has offered to help suppliers with staff training on the scheme. We also welcome the DWP's plans to automate the process (which is currently manual) for suppliers to apply to put a customer on Fuel Direct and update a customer's consumption details.

5.28. Ofgem will continue to monitor suppliers' use of Fuel Direct and to support its availability as an important budgeting and repayment tool for vulnerable customers on low incomes.

### **Suppliers' voluntary social programmes**

5.29. In the 2008 budget, the Government announced an increase in suppliers' collective expenditure on voluntary social programmes to at least £150m per year by 2011. At the request of the Government, Ofgem led the process of determining areas of spend for inclusion in suppliers' expenditure targets and set up a mechanism for ongoing monitoring and evaluation of suppliers' obligations to meet their individual targets. In July 2008 Ofgem published guidance setting out the categories of expenditure it would include in reviewing suppliers' performance against their social spend<sup>20</sup>.

5.30. In August 2009 Ofgem reported on suppliers' performance for 2008-9 - the first year of the agreement<sup>21</sup>. We will report on the second year of the agreement later in the Summer.

5.31. Legislation (the Energy Act 2010) was recently introduced giving the Government powers to introduce support schemes for reducing fuel poverty. Such schemes require energy suppliers to provide benefits to certain groups of customers. The new arrangements are expected to begin from April 2011 when the voluntary agreement comes to an end.

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<sup>20</sup> Monitoring suppliers' social initiatives:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=261&refer=Sustainability/SocAction/Suppliers/CSR>

<sup>21</sup> Monitoring suppliers' social programmes 2008-9:

[http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Monitoring\\_suppliers\\_social\\_spend\\_2008\\_09\\_final.pdf](http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Monitoring_suppliers_social_spend_2008_09_final.pdf)



## Appendices

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## Appendix 1 - Data sources

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

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

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

## Appendix 2 – Key Principles for ability to pay

1.1. In accordance with their supply licence conditions<sup>22</sup>, suppliers must take domestic customers' ability to pay into account when calculating instalment amounts to repay a gas or electricity debt. As part of Ofgem's review of suppliers' approaches to debt management and prevention, published in June 2010, we developed the following key Principles that suppliers should use when assessing ability to pay. These key Principles reflect considerations which the Authority will look for and take into account, along with any other relevant factors, when assessing suppliers' adherence to their supply licence conditions.

### *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;

<sup>22</sup> Pursuant to standard licence condition 27.8 of the gas and electricity supply licences.

- 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.

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## 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 (such as the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Acts of 2004, 2008 and 2010) as well as arising from directly effective European Community legislation.

1.3. References to the Gas Act and the Electricity Act in this appendix are to Part 1 of those Acts<sup>23</sup>. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This appendix must be read accordingly<sup>24</sup>.

1.4. The Authority's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.

1.5. The Authority is generally required to carry out its functions in the manner it considers is best calculated to further the principal objective, wherever appropriate by promoting effective competition between persons engaged in, or commercial activities connected with,

- the shipping, transportation or supply of gas conveyed through pipes;
- the generation, transmission, distribution or supply of electricity;
- the provision or use of electricity interconnectors.

1.6. Before deciding to carry out its functions in a particular manner with a view to promoting competition, the Authority will have to consider the extent to which the interests of consumers would be protected by that manner of carrying out those functions and whether there is any other manner (whether or not it would promote competition) in which the Authority could carry out those functions which would better protect those interests.

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<sup>23</sup> Entitled "Gas Supply" and "Electricity Supply" respectively.

<sup>24</sup> 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.

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1.7. In performing these duties, the Authority must have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- the need to secure that all reasonable demands for electricity are met;
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them<sup>25</sup>; and
- the need to contribute to the achievement of sustainable development.

1.8. In performing these duties, the Authority must have regard to the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas<sup>26</sup>.

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

- promote efficiency and economy on the part of those licensed<sup>27</sup> 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,

and shall, in carrying out those functions, have regard to the effect on the environment.

1.10. In carrying out these functions the Authority must also have regard to:

- 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.

1.11. The Authority may, in carrying out a function under the Gas Act and the Electricity Act, have regard to any interests of consumers in relation to communications services and electronic communications apparatus or to water or sewerage services (within the meaning of the Water Industry Act 1991), which are affected by the carrying out of that function.

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<sup>25</sup> 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 Acts in the case of Electricity Act functions.

<sup>26</sup> The Authority may have regard to other descriptions of consumers.

<sup>27</sup> Or persons authorised by exemptions to carry on any activity.

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1.12. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation<sup>28</sup> 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.

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<sup>28</sup> Council Regulation (EC) 1/2003.