



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

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Dear Colleagues,

Domestic suppliers' quarterly debt and disconnections – Q1 and Q2 2010

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

Full analysis of supplier performance in relation to debt and disconnection and suppliers' other social obligations for 2009 was set out in our annual report, published in July 2010¹. In addition to our regular monitoring, Ofgem published its review of suppliers' approaches to debt management and prevention in June 2010². While the review identified many examples of good practice amongst suppliers, we identified an area of concern regarding the extent to which suppliers take customers' individual circumstances into account when determining their ability to repay debt. As a result, we have set a number of key Principles that suppliers need to consider when assessing customers' ability to pay, which we will take into account when considering suppliers' adherence to their supply licence obligations.

We are currently conducting a review of the data we collect to monitor debt, disconnection and other areas of operation where vulnerable customers may be affected 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 by the end of this year.

Supplier data for January – June 2010

Attached to this letter are the reports for data collected in quarter one (Q1) and quarter two (Q2) of 2010. Full analysis of supplier performance will be set out in our annual statistics report for 2010. We highlight below the key points drawn from the Q1 and Q2 data.

¹ Domestic suppliers' social obligations: 2009 Annual Report:
<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Social%20obligations%202009%20annual%20report.pdf>

Disconnections

Overall the number of disconnections for debt fell in the first two quarters of 2010 compared to the same period last year. In particular, the number of gas disconnections fell by 46% in Q2 2010 compared to Q2 2009.

We have previously highlighted concerns about EDF Energy's electricity disconnections which continue to be disproportionately high compared with other suppliers and increased in 2009. This worrying trend has continued. Its electricity disconnections were 10% higher in Q1 2010 compared to Q1 2009 and remained similar in Q2 2010 to its Q2 2009 levels.

We have also previously raised concerns about Scottish Power's gas disconnections which are also disproportionately high compared to other suppliers and increased in 2009. However, Scottish Power's gas disconnections decreased by 17% in Q1 and 52% in Q2 2010 compared with the same quarters last year. While this is a promising sign, Scottish Power still has the highest number of gas disconnections of any supplier.

Both companies have told us that the underlying reason for their relatively high disconnection rates has been their inability to install prepayment meters (PPMs) at some properties for safety reasons.

In light of these issues, we made further enquiries of the two companies, including meetings between Ofgem's Chief Executive, Alistair Buchanan, and the Chief Executives of the two companies in August. As a result of these meetings, Scottish Power is undertaking a pilot from October 2010 aimed at identifying measures to address the gas safety issues it has been facing. It will also suspend its disconnections if it is a particularly cold winter and is forecasting that its disconnections overall will fall by around 44% during 2010. EDF Energy has instigated an industry group, through the Energy Retail Association, to discuss how to resolve the safety issues it has faced and has agreed to suspend domestic disconnections during this winter (October 2010 – March 2011) where it has been unable to install an electricity PPM for safety reasons.

npower's electricity disconnection rates were higher in Q2 2010 than the same quarter last year. npower has informed us that this reflects the re-commencement of its disconnections activity after stopping over the winter of 2009/10 and the consequent build up of potential disconnection cases.

Debt levels

The total number of customers repaying an energy debt was lower in the first two quarters of 2010 than in the same quarters last year for both fuels. At the end of Q2 2010, the number of customers repaying an electricity debt had decreased by 13% to 1 million compared to the same quarter last year and the number of customers repaying a gas debt had decreased by 7% to 0.9 million.

In addition, the number of credit customers entering into new debt repayment arrangements decreased by 10% for electricity and 16% for gas in Q1 2010 compared to Q1 2009. In Q2 2010 numbers for both fuels remained similar to the same quarter last year².

Despite the decrease overall, the number of gas PPM customers repaying a debt increased by 25% in Q1 2010 and 20% in Q2 2010 compared to the same quarters last year. The number of electricity PPM customers repaying a debt showed a slight decline in Q1 and Q2 2010 compared with the same quarters last year.

² SSE's figures have been excluded from the statistics in this paragraph, due to a reporting discrepancy that affected their figures pre-2010, thus making their 2009 and 2010 figures incomparable. npower's figures have also been excluded as they have been unable to provide the figures for this metric in accordance with our guidance and the inclusion of the figures would lead to an inconsistency with the data provided by other suppliers.

The average level of debt per customer continued to increase in Q1 and Q2 2010 compared to the same quarters last year. At the end of Q2, average electricity debt had increased by 15% to £306 and average gas debt had increased by 14% to £307 compared to the same period last year. There was also an increase in the number of customers with debts over £600, particularly for gas where there was a 39% increase in Q1 and a 21% increase in Q2 2010 compared to the same quarters last year.

It is likely the prevailing difficult economic conditions, the rise in gas prices in 2008 and the cold winter at the beginning of 2010 has resulted in customers struggling to pay off their debts throughout 2009 and into 2010. Ofgem strongly urges suppliers to deal sympathetically with customers facing payment difficulties and to continue working proactively to tackle debt problems at an early stage to avoid the build up of debt.

Debt repayment rates³

With the continuing increase in the number of customers struggling to pay bigger debts, it remains essential that suppliers take customers' individual circumstances into account when determining their ability to repay debt.

For credit customers, repayment rates in Q1 and Q2 2010 decreased compared to the same quarters last year for both fuels. However, repayment rates for PPM customers of both fuels were higher in Q1 2010 compared with Q1 2009. While this is concerning, we note that in Q2 2010 repayment levels for PPM customers appeared to have levelled compared to Q2 2009.

Ofgem held a roundtable in April 2010 with suppliers and other stakeholders where we strongly urged suppliers to use the key Principles subsequently set out in Ofgem's June 2010 'Review of suppliers' approaches to debt management and prevention'⁴, when considering customers' ability to pay. We will take application of these key Principles into account when considering suppliers' adherence to their licence obligations in this area and we stand ready to take enforcement action where suppliers are in breach.

We will be hearing from suppliers by the end of the year to see what progress has been made to introduce these Principles. In the meantime we will be monitoring this closely and will pay particular attention to the repayment levels in Q3 2010, given that Ofgem's key Principles should have had an effect by this time.

Prepayment meters (PPM)

The percentage of customers paying by PPM has increased slightly in both Q1 and Q2 2010 compared to the same periods last year. This is reflective of the increase in the number of gas PPMs installed for debt in Q1 2010 as referred to in the debt section above. Overall at the end of Q2 2010 13% of electricity PPM customers and 15% of gas PPM customers were repaying a debt.

In July 2010 we published our update on tariff differentials following the two new licence conditions we implemented requiring tariff differentials between payment methods to be cost reflective and banning undue discrimination between different customer groups. The report highlighted that the tariff differentials for customers paying by PPM compared to those paying by standard credit and direct debit are now consistent with our understanding of the differences in costs. On average, PPM customers now pay £19 below those paying by standard credit. The average differential over direct debit for a typical dual fuel PPM customer has also fallen from £111 to £69⁵.

³ The information in this paragraph is based on the big 6 energy suppliers (British Gas, EDF Energy, E.ON, npower, Scottish Power and SSE).

⁴ Review of suppliers' approaches to debt management and prevention, June 2010:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Debt%20Review%20Report.pdf>

⁵ Update on Probe Monitoring: tariff differentials and consumer switching, July 2010:

Conclusion

While the overall decrease in the number of customers in debt and the number of disconnections is encouraging, we are still very concerned about the increase in average debts and large gas debts. As winter approaches, Ofgem strongly urges suppliers to maintain a strong focus in this area particularly as we are now entering the colder winter months and to do all they can to assist their customers, particularly those who are vulnerable, to manage their energy bills.

Yours faithfully,

Maxine Frerk
Partner, Sustainable Development

http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Update%20on%20Probe%20Monitoring_FINAL.pdf