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

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Dear Colleagues,

### **Domestic suppliers' quarterly debt and disconnections – Q3 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.

This letter outlines supplier performance in relation to debt and disconnection during Q3 (July to September) 2010. Full analysis of supplier performance in relation to debt and disconnection and suppliers' other social obligations for 2010 will be set out in our annual report, due to be published by the middle of this year<sup>1</sup>. In addition to our regular monitoring, we also published our review of suppliers' approaches to debt management and prevention in June 2010<sup>2</sup>.

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. Following initial views from suppliers and consumer groups, we will be publishing our proposed changes later this month.

### **Supplier data for July to September (Q3) 2010**

#### Disconnections

Overall the number of disconnections for debt continued to fall in Q3 2010 compared to the same quarter in 2009. This is largely due to a 50% reduction in gas disconnections in Q3 2010 compared to Q3 2009.

In contrast, electricity disconnections in Q3 2010 increased slightly compared with Q3 2009. This can be attributed to the continued increase of EDF Energy's electricity disconnections. EDF Energy continued to disconnect a disproportionately high number of

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<sup>1</sup> Our annual report for 2009, 'Domestic suppliers' social obligations: 2009 Annual Report', is available at:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Social%20obligations%202009%20annual%20report.pdf>

<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>

electricity customers compared with other suppliers, a trend which we have highlighted in previous reports. However, figures for Q4 2010 suggest that EDF Energy's gas and electricity disconnections have considerably reduced compared to Q3 2010 and Q4 2009. This is a direct result of the interventions Ofgem took last year and which are explained further below.

Despite the overall reduction in gas disconnections, Scottish Power is still disconnecting a disproportionately high number of gas customers compared to other suppliers, as we have mentioned previously. However, during 2010 Scottish Power's gas disconnection levels have decreased each quarter compared to the same quarters in 2009. In Q3 2010 its gas disconnection levels decreased by over 50% compared to Q3 2009. In addition, figures for Q4 2010 suggest that Scottish Power's gas disconnections have fallen compared to Q3 2010 and Q4 2009.

As we mentioned in our Q1 and Q2 2010 report, EDF Energy and Scottish Power 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 2010. As a result of these meetings, Scottish Power commenced a pilot in October 2010 aimed at identifying measures to address the gas safety issues it has been facing. In addition, due to the particularly cold weather at the end of last year, it suspended its disconnection activity between the end of November 2010 and the beginning of January 2011. Due to the action it has been taking, Scottish Power has forecasted 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 it has suspended domestic disconnections during this winter (October 2010 – March 2011) where it has been unable to install an electricity PPM for safety reasons. We are closely monitoring EDF Energy's disconnection rates to ensure these measures positively affect their disconnection levels and encourage other industry participants to work with them in identifying practical solutions.

### Debt levels

The number of customers repaying a debt in Q3 2010 was slightly lower than the same quarter in 2009 for both fuels. Compared to last quarter, this number remained static in Q3 2010, with 1 million customers repaying an electricity debt and 0.9 million customers repaying a gas debt.

The number of credit customers entering into new debt repayment arrangements remained similar to the same quarter in 2009 for both fuels<sup>3</sup>. The number of electricity PPM customers repaying a debt in Q3 2010 was slightly lower than the same quarter in 2009. However, the number of gas PPM customers repaying a debt increased by 15% compared to Q3 2009. This increase follows the increases seen in Q1 and Q2 of 2010.

The average level of customer debt in Q3 2010 was higher than in Q3 2009. Average electricity debt was 4% higher, rising from £279 in Q3 2009 to £291 in Q3 2010, and average gas debt showed an increase of 9%, rising from £264 to £289. However, there are signs that this increasing trend is slowing given that the increase is less than in Q1 and Q2 2010.

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<sup>3</sup> SSE and npower's figures have been excluded from the statistics in this paragraph, due to reporting discrepancies that affected their figures pre-2010, thus making their 2009 and 2010 figures incomparable.

While average debt levels were rising, for the first time in 2010, in Q3 there was a slight decrease in the number of electricity customers with debts over £600 compared to the same period last year. However, the number of gas customers with debts over £600 was 12% higher than the same quarter in 2009.

Our previous debt and disconnection best practice work has highlighted the importance of early action to prevent debt build up. We continue to urge suppliers to work proactively with customers who are struggling to pay bills and to tackle debt at an early stage before it becomes unmanageable. It is likely that the continued difficult economic conditions, the rise in gas prices in 2008 and the cold winter at the beginning of 2010 have continued to make it very difficult for some customers to pay off their debts. With the recent increases in fuel bills and the very cold weather at the end of 2010, suppliers need to continue to treat customers struggling to pay sympathetically.

### Debt repayment rates

Debt repayment rates in Q3 2010 were generally lower than in the same quarter of the previous year for both credit and PPM customers. For gas PPM customers, Q3 2010 was the first quarter this year where average repayment rates were lower compared to the same period of the previous year. The average gas PPM repayment rate across the six main suppliers was £7.23 in Q3 2010 - £1 less than in Q3 2009. In contrast, electricity PPM repayment rates have been stable since Q2 2009.

Despite these overall decreases, we are still concerned about some suppliers' repayment rates and the divergence between credit and PPM repayment rates, with PPM customers paying more per week on average despite them being more likely to be on low incomes. The exception to this trend is E.ON and, more recently, npower which have lower average weekly repayment rates for customers on a PPM compared to those on a credit meter. With these concerns in mind, Consumer Focus and Ofgem will be meeting with each of the six main suppliers in March to discuss their incorporation of our key principles<sup>4</sup> into their practices when assessing customers' ability to pay and, in respect of some suppliers, the divergence between their average credit and PPM repayment rates.

### Prepayment Meters

The percentage of gas and electricity customers paying by PPM remained similar in Q3 2010 to the same quarter in 2009. Of those on a PPM, 10% of electricity PPM customers and 13% of gas PPM customers were repaying a debt in Q3 2010 compared to 14% for both fuels in the same quarter in 2009.

### Conclusion

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

If you have any questions regarding this letter, please contact Helen Harper ([helen.harper@ofgem.gov.uk](mailto:helen.harper@ofgem.gov.uk); 020 7901 3073).

Yours faithfully,

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<sup>4</sup> As part of our June 2010 review of suppliers' approaches to debt management and prevention, we set a number of key principles that suppliers need to consider when assessing customers' ability to repay debt. We will take the incorporation of these key principles into account when considering suppliers' adherence to their supply licence obligations.

Maxine Frerk  
**Partner, Sustainable Development**