Promoting choice and value
for all gas and electricity customers

Domestic suppliers' social obligations: 2010 annual report

Report

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Overview:

This report provides a summary of domestic suppliers' performance for January - December 2010 in relation to debt, disconnection, prepayment meters and services for vulnerable customers. The key findings are:

- disconnections continued to decrease in 2010, particularly for gas customers
- the number of customers repaying a debt has fallen, as has the number of prepayment meter (PPM) customers repaying a debt. However, the average level of debt has risen
- there has been a decrease in average weekly repayment amounts, although there is a divergence between rates for credit and PPM customers
- there has been an increase in the number of PPM customers, although the number of PPMs installed has decreased, particularly where there is no debt
- the number of customers paying by Fuel Direct has increased for the second year
- the number of customers on suppliers' Priority Services Registers (PSRs) has continued to increase, as has the number of customers receiving general energy efficiency information and more specialist energy efficiency advice
- suppliers' have made good progress on embedding the key Principles for ability to pay.

Ofgem will continue to closely monitor suppliers' performance in these areas, intervening where we identify issues.

Context

As part of its Social Action Strategy, Ofgem collects quarterly and annual data from domestic suppliers in relation to debt, disconnection, prepayment meters and help for vulnerable customers. This is used to review suppliers' performance in relation to specific social obligations, including areas of operation where vulnerable customers may be affected. By monitoring these statistics, Ofgem can identify areas of suppliers' policies and practices where improvements need to be made.

The data is gathered and published on a quarterly and annually basis and is available on Ofgem's website at www.ofgem.gov.uk. This annual 2010 report gives a comprehensive overview of suppliers' performance and practice in these areas for January - December 2010. The report covers social obligations under the supply licence conditions and does not cover suppliers' activities related to their expenditure on voluntary social initiatives. These are reported on separately and can be found on Ofgem's website at www.ofgem.gov.uk.

We are conducting a review of the data we collect to monitor suppliers' social obligations and will report on the changes that we intend to make later this year.

Associated documents

All documents listed here or elsewhere in this report can be found on Ofgem's website, at www.ofgem.gov.uk

- Social Action Strategy Update 2010-2011

- Domestic suppliers' social obligations: 2009 Annual Report, July 2009 (Ref: 89/10).

- Review of protection for vulnerable customers from disconnection, October 2009 (Ref: 121/09)

- Review of suppliers' approaches to debt management and prevention, June 2010 (Ref: 69/10)

- Update on Probe monitoring: tariff differentials and consumer switching, July 2010 (Ref: 79/10)

- Suppliers submit the data in line with Ofgem guidance set out in the document Monitoring suppliers' performance in relation to domestic customers (November 2007) and data presented in this document should be read in conjunction with this guidance to guard against misinterpretation.

Contents

Executive Summary

This report provides a review of suppliers' performance against social obligations, during 2010. This includes performance in relation to debt and disconnection, prepayment meters (PPMs), Fuel Direct, Priority Services Registers, free gas safety checks and the provision of energy efficiency information and advice. Ofgem monitors these areas on an ongoing basis in order to identify and address any issues with suppliers' performance in these areas.

Earlier reports have shone a light on individual suppliers' practices and trends across supply companies where further action has been required. Last year's report (2009) highlighted the need for suppliers to do more to take account of customers' ability to pay in setting debt repayment rates. Ofgem developed a new set of principles and made clear to suppliers that we would take account of suppliers' response to these in assessing compliance with licence obligations. It is good to see in this year's report that suppliers are beginning to embed these best practice principles and we urge them to develop this further.

While this year's report shows further, and welcome, improvements, for example in the numbers of disconnections to historically low levels (2,800), we continue to press suppliers to do all they can to respond to customer circumstances at a time of tightening household budgets and rising energy costs. We expect suppliers to be fully focused on their social obligations and are committed, where necessary, to use enforcement powers to tackle poor compliance and protect consumers.

Debt - The number of customers repaying electricity and gas debts through an agreed repayment plan with their supplier decreased in 2010, marginally in gas but more notably in electricity. At the end of 2010, there were 0.9 million electricity and 0.7 million gas customers repaying a debt compared to 1 million and 0.7 million at the end of 2009. The number of PPM customers repaying a debt also fell by 31% for electricity and 8% for gas compared to 2009.

Whilst the number of customers entering into new debt repayment arrangements fell by 3% for electricity and 7% for gas compared with 2009, there continue to be signs that the recession and high energy bills are having an impact on customers struggling to pay. The average level of debt being repaid has increased from £280 to £316 in electricity and from £288 to £310 in gas, and the proportion of customers that owe more than £100 has also increased. However, the length of the average repayment period for both fuel types has increased only slightly. This suggests that while debt levels are rising, suppliers are not substantially increasing the length of time the customer has to pay back the debt.

Encouragingly, average weekly repayment amounts fell for credit and PPM customers in both gas and electricity. This suggests that the key Principles for taking ability to pay into account may be having an impact. However, we note that the decreases in repayment rates have been greater for credit than PPM customers. With the exception of E.ON and npower, the major suppliers have higher weekly repayment amounts for PPM customers compared to credit customers. We are concerned by this given that PPM customers are more likely to be on low incomes. We have already highlighted this divergence to suppliers and we intend to explore further with them the reasons for the divergence between credit and PPM repayment rates.

Disconnection - Disconnections decreased by over a third; from 4,227 in 2009 to 2,801 in 2010, continuing the trend since 2007 when there were 8,384 disconnections. The reduction from 4,227 to 2,801 represents a reduction of 55% in the number of gas disconnections and a fall of 18% in the number of electricity disconnections. EDF Energy remains the supplier with the highest proportion of electricity disconnections whilst ScottishPower continues to have the highest proportion of disconnections for gas. We have met with both companies at Chief Executive level and have seen reductions in the number of disconnections from both companies as a result of the initiatives that have been implemented following those meetings. EDF Energy has reported a fall of 15% in the number of electricity disconnections whilst ScottishPower's gas disconnections have fallen 60% from 2009. Whilst this continuing fall is encouraging, it is important that the improvement is maintained and we will monitor the success of these initiatives.

Prepayment meters - There was an increase in the number of electricity and gas customers paying through a PPM between 2009 and 2010 – from 3.8 million to 4 million for electricity, and from 2.6 to 2.7 million for gas. At the end of 2010, around 12% of gas customers and 15% of electricity customers paid through a PPM.

As a result of our Energy Supply Probe, Ofgem introduced new licence conditions to address unfair price differentials for domestic customers from 1 September 2009. In our recent Retail Market Review we found that suppliers have dramatically decreased the premium charged to PPM customers with respect to their standard credit customers. The differential between PPM and standard credit has narrowed so that PPM customers now pay, on average, £20 less than standard credit customers for their gas and electricity.

Help for vulnerable customers - Suppliers are required to maintain a Priority Services Register (PSR), which is a list of priority customers entitled to special, free services. In 2010, the number of customers on suppliers' PSRs increased by 27% for electricity and 36% for gas. This follows similar increases in 2008 and 2009. We welcome this and encourage suppliers to continue to increase awareness of the PSR.

In 2010, the number of customers paying by Fuel Direct increased by 29% for electricity and 22% for gas. Those on Fuel Direct still represent a small proportion of all customers repaying a debt. We encourage suppliers to proactively offer Fuel Direct to customers for whom it is the most appropriate method of payment. We welcome suppliers' recent discussions with the Department of Work and Pensions (DWP) to improve the applications process.

Scotland and Wales - For the first time this report includes data on debt, disconnection, PPMs, and the PSR in Scotland and Wales. The trends are broadly similar to those seen in Great Britain as a whole; the number of customers repaying a debt decreased and disconnections for non payment of debt decreased significantly in Scotland and Wales (and at a greater rate than across Great Britain as a whole).

Key Principles for ability to pay - Suppliers have made steady progress to introduce the key Principles, and we are encouraged with the development of new initiatives to assist customers in debt. However, there remains work to be done by most in terms of providing customers with written confirmation of repayment arrangements, and in the monitoring of staff and arrangements. We are keen that suppliers continue to work to provide customers with manageable repayment arrangements based upon ability to pay.

1. Introduction

Chapter Summary

This section gives an overview of the content and structure of Ofgem’s 2010 annual social obligations monitoring report.

Target audience

1.1. This report is aimed at suppliers, consumer organisations and other interested parties.

Structure of the document

1.2. The structure of this document is as follows:

- Chapter 2 provides an overview of the domestic debt picture in 2010. It reports 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, the average level of debt repayment rates and the average duration of repayment. It also provides an overview of those customers repaying a debt in Scotland and Wales. Suppliers’ progress to embed the key Principles for ability to pay is also highlighted in this chapter.

- Chapter 3 reports on the level of gas and electricity disconnections during 2010 and provides an analysis of the overall disconnections picture, including the performance of each of the six major suppliers in this area. It also provides an overview on trends in disconnection in Scotland and Wales.

- Chapter 4 focuses on prepayment meters (PPMs) in 2010, giving information and analysis on the number of PPM customers, the reason for the installation of PPMs and information on token PPMs.

- Chapter 5 outlines key trends identified in relation to suppliers' licence obligations to assist vulnerable customers through suppliers’ Priority Services Registers (PSRs), including information on the number of PSR customers in Scotland and Wales. It also looks at trends in the provision of energy efficiency advice and information, particularly to PSR customers and customers in debt, and the provision of free gas safety checks to customers. It also includes the number of customers on Fuel Direct, a budgeting payment method administered by the DWP that enables payments directly from Social Security benefits.

2. Overview of the domestic debt picture

Chapter Summary

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. It provides an overview of those customers repaying a debt in Scotland and Wales. It also reports on suppliers' progress to embed the key Principles for ability to pay.

2.1. Under their gas and electricity supply licence conditions, suppliers are obliged[1] to offer domestic customers struggling to pay their energy bill the following payment options:

- payment by direct deductions from social security benefits received by the customer (known as Fuel Direct);
- payment through a PPM (where it is safe and reasonably practicable to do so); and
- payment by regular instalments paid through means other than a PPM.

2.2. Suppliers are also required to take into account indebted customers' ability to pay when calculating repayment instalment amounts and setting repayment terms[2]. We expect suppliers to adhere to this in ensuring that repayment arrangements are manageable for customers on all payment types, even where this involves repayment over a longer period of time.

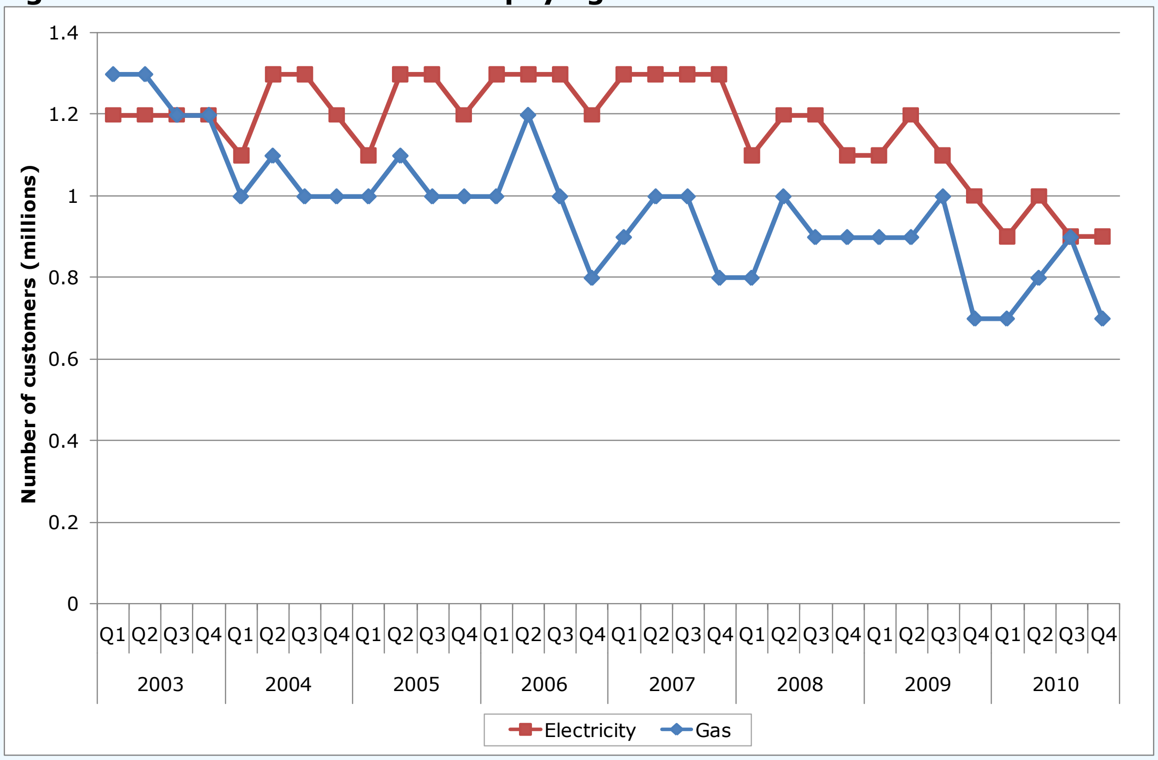
Number of customers repaying an energy debt

2.3. At the end of 2010, 3.2% of electricity customers (0.9 million customers) and 3.2% of gas customers (0.7 million customers) were repaying a debt through an agreed repayment arrangement with their supplier[3], as shown in Figure 1 below. Despite the continuing economic downturn and its associated pressures on consumers, these figures reflect a 15% reduction in the number of customers repaying an electricity debt and a 2% reduction in the number repaying gas debt compared to the end of 2009. During 2010, the number of customers entering into

[1] Pursuant to licence condition 27.6 of the standard gas and electricity supply licence conditions.
[2] Pursuant to licence condition 27.8 of the standard gas and electricity supply licence conditions
[3] 'Debt' here refers to those customers who have had their PPM set to collect a debt or who are on a debt repayment programme due to last longer than 91 days/13 weeks. A debt repayment arrangement is a specific arrangement to repay outstanding arrears. It does not therefore capture those customers who still have outstanding energy bills but have not entered into a repayment arrangement with their supplier. The only Direct Debit customers included under this definition are those who have specifically joined the scheme to repay a debt.

new debt repayment arrangements fell by 3% for electricity and 7% for gas compared with 2009.[4]

Figure 1: Number of customers repaying a debt



Source: Ofgem, supplier data

2.4. Figure 1 also illustrates the continuing seasonal pattern of energy debt in 2010, whereby the number of customers repaying a debt fell towards the end of the year, in the billing period following the warmer months, and increased in the billing period following winter as customers fell into arrears following higher energy usage during the winter months.

2.5. At the end of 2010, 9% of electricity PPM customers (373,000 customers) and 12% of gas PPM customers (322,000 customers) were repaying an energy debt. Compared to the end of 2009, the number of PPM customers repaying a debt has fallen by 31% for electricity and 8% for gas. For gas, all suppliers (with the exception of npower) showed an increase in the number of PPM customers repaying a debt since 2009. npower has explained that their fall was a consequence of changes made to their data reporting to bring it in line with the Ofgem guidance on reporting.

[4] These figures exclude npower' and SSE's figures on their number of gas and electricity customers entering into new debt repayment arrangements. npower and SSE's figures were excluded in the 2009 analysis as they did not provide the figures in accordance with our guidance and hence have been excluded here, in the 2010 analysis, to allow for direct like-for-like comparison with the 2009 figures.

Number of customers repaying a debt in Scotland and Wales

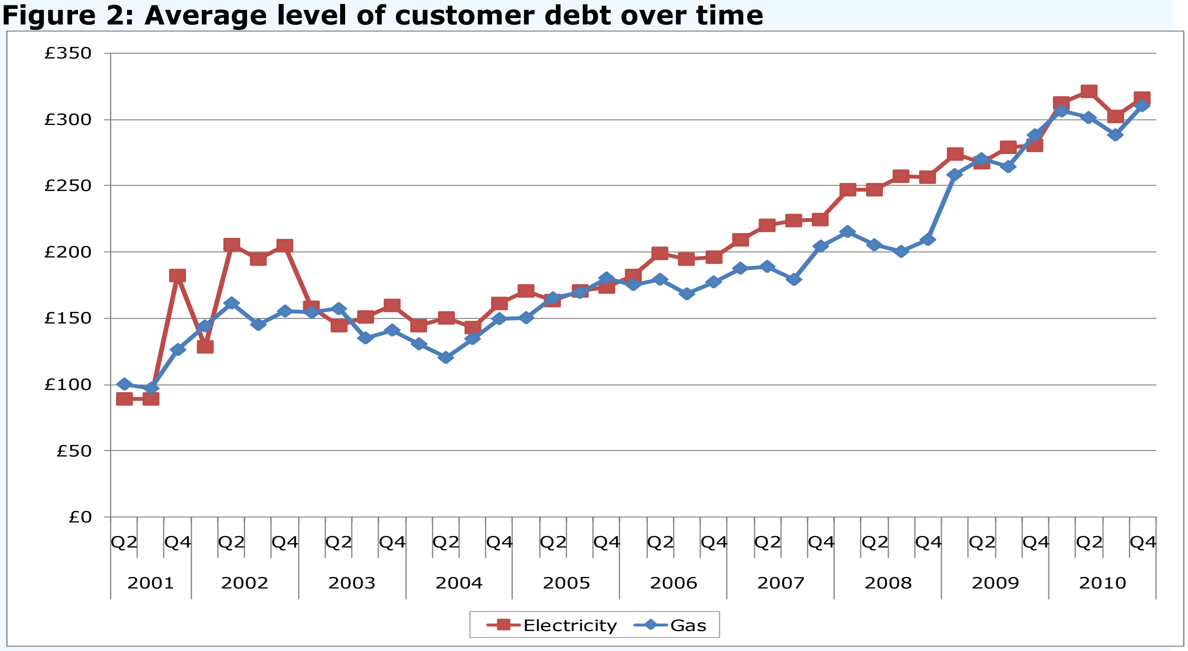
2.6. Mirroring the pattern across Great Britain as a whole, within Scotland and Wales the number of electricity and gas customers repaying a debt through an agreed repayment arrangement with their supplier fell in 2010. In Scotland, 4% (126,261 customers) of electricity and 4% (78,111) of gas customers were repaying a debt. In Wales, 3% of electricity (37,767) and 3% of gas (30,638) customers were repaying a debt. This represents, respectively, reductions of 16% and 5% for Scotland and reductions of 15% and 6% for Wales compared to 2009.

2.7. Similarly, the number of PPM electricity customers repaying a debt has decreased in Scotland and Wales – by 29% and 25% respectively compared to 2009. At the end of 2010, the percentage of electricity PPM customers repaying a debt was 8% in Scotland and 6% in Wales. Unlike the British trend however, the number of PPM gas customers repaying a debt has increased slightly since 2009 – by 3% to 31,000 in Scotland and by 7% to 20,000 in Wales. The percentage of PPM gas customers repaying a debt is 11% in Scotland and 14% in Wales.

Level of energy debt

2.8. While the overall numbers repaying a debt has decreased, there are signs that the recession and high energy bills are continuing to have an impact on customers struggling to pay. Figure 2 below shows that the average level of electricity and gas debt has continued to rise during 2010 compared to 2009. At the end of 2010 the average electricity debt was £316 - £36 higher than at the end of 2009. The average level of gas debt has also risen by £22 to £310.

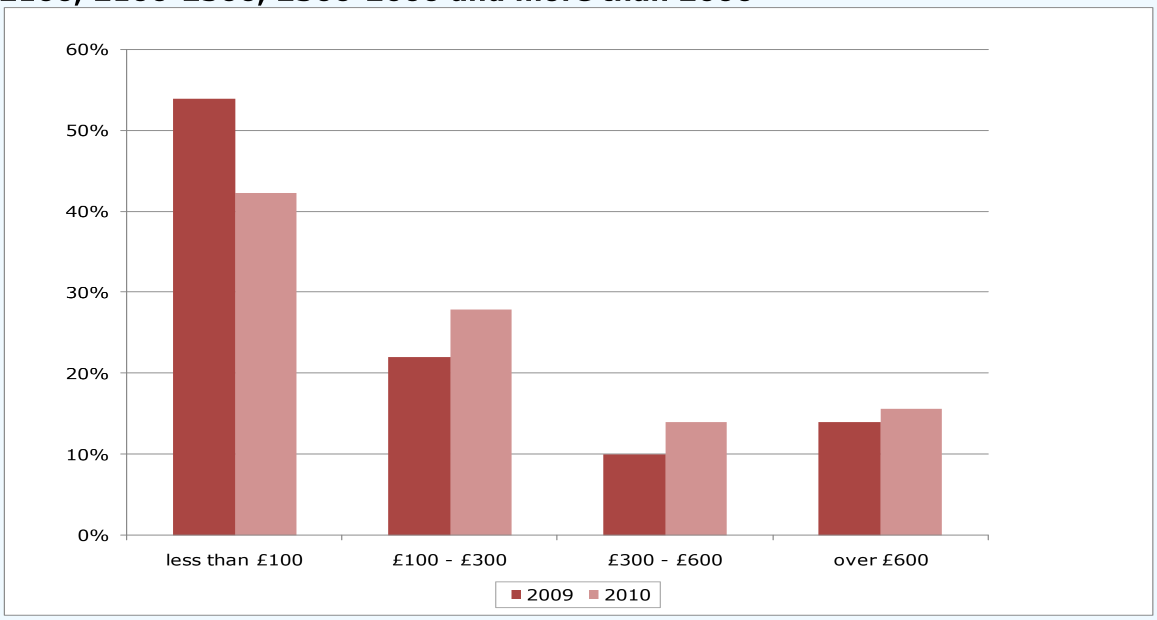
Figure 2: Average level of customer debt over time



Source: Ofgem, supplier data

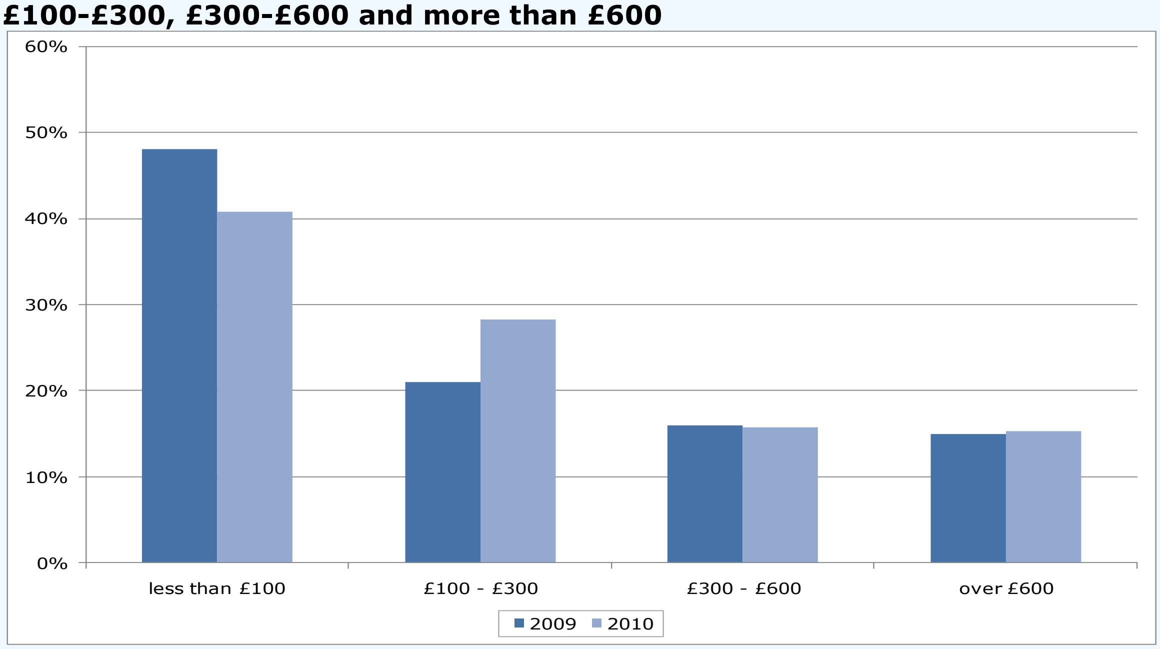
2.9. The rising level of debt is illustrated further in the increase in the percentage of customers repaying larger debts in 2010 compared to 2009. Figure 3 below shows that in 2010 58% of indebted electricity customers owed over £100, compared to 46% in 2009. Similarly, Figure 4 shows the percentage of gas customers repaying debts of more than £100 in 2010 was 59%, compared to 52% in 2009.

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



Source: Ofgem, supplier data

Figure 4: Percentage of indebted gas customers repaying less than £100, £100-£300, £300-£600 and more than £600



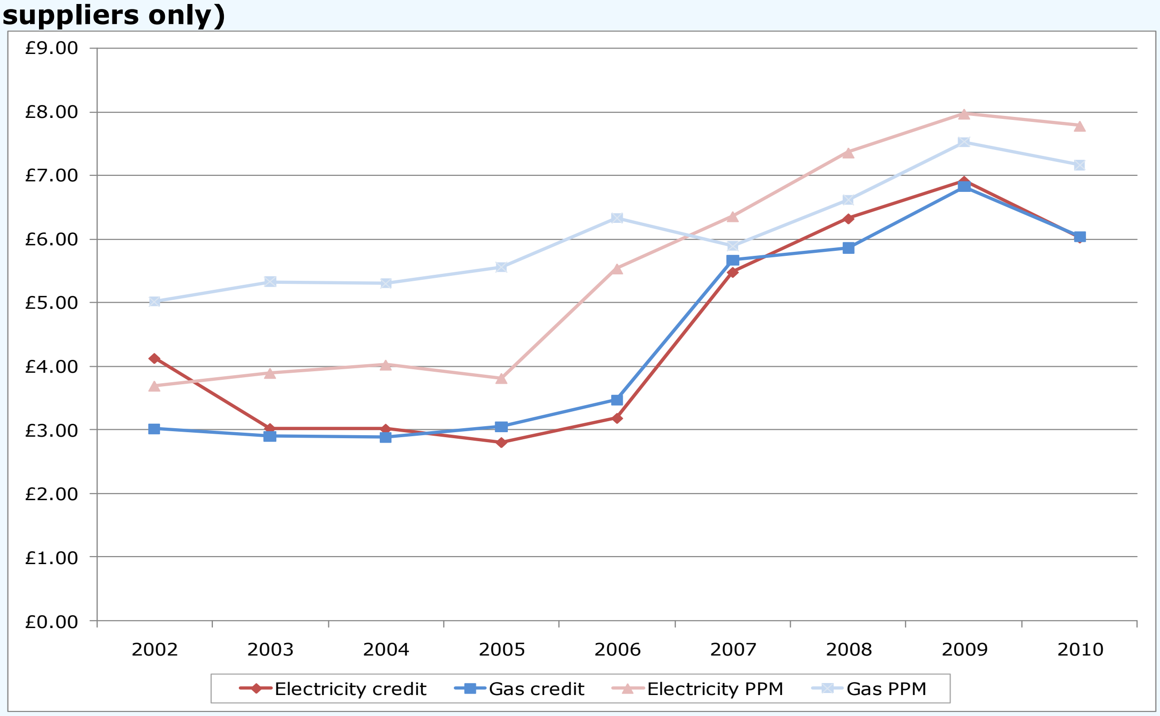
Source: Ofgem, supplier data

2.10. It is likely that customers are delaying payment of their energy bills due to other priorities, which is increasing their debt levels over time. In our debt review last year we highlighted the importance of the need for suppliers to proactively identify those customers who are having difficulty in paying. With the recent increases in energy prices and the challenging economic situation, we expect suppliers to deal sympathetically with customers and to proactively contact customers early in order to provide them with an appropriate solution to avoid the build up of unmanageable levels of debt.

Debt repayment rates

2.11. The following provides information on the average weekly debt repayment rates of the six major domestic energy suppliers[5]. Figure 5 below shows that overall average weekly debt repayment rates decreased in 2010 compared to 2009 - across payment type and both fuels. For credit customers, the average weekly repayment rate fell by 13% to £6.02 for electricity and by 11% to £6.04 for gas. Average repayment rates for electricity and gas PPM customers also fell, albeit to a lesser extent. Average repayment rates for electricity PPM fell by 2% to £7.78 per week and gas PPM fell by 5% to £7.16.

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



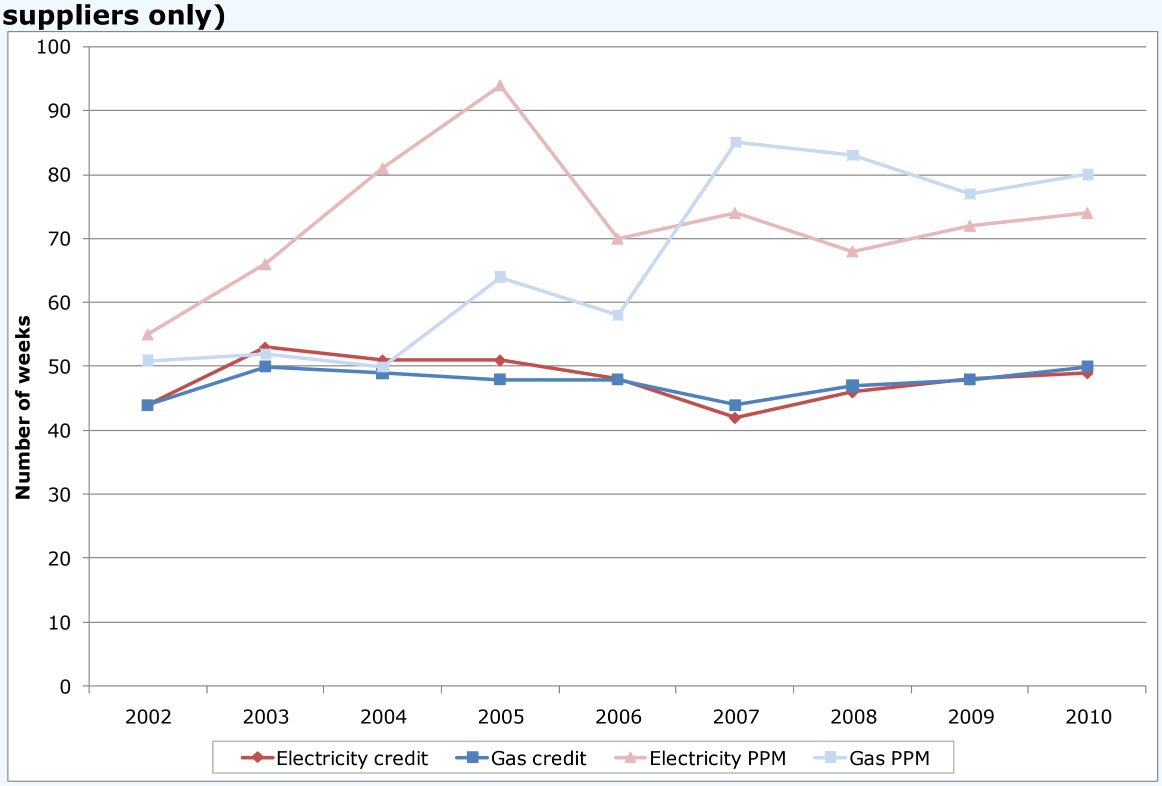
Source: Ofgem, supplier data

[5] 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 are not necessarily representative of the broader market. Prior to 2007, small suppliers' repayment rates are included in the figures.

2.12. The reduction in average repayment rates suggests that overall suppliers have made improvements in taking into account a customer's ability to pay when calculating repayment rates. Our discussions with suppliers also indicate that each of the six major suppliers have taken steps to incorporate into their practices our key Principles when calculating repayment rates. However, the relatively smaller reductions for PPM customers, and the increased divergence between credit and PPM repayment rates that results, do raise some concerns. With the exception of E.ON and npower, each supplier's average weekly PPM repayment rate is higher than for credit customers for both fuels. This is concerning given that PPM customers are more likely to be on lower incomes. We highlighted this divergence to suppliers during the course of our recent discussions about embedding the key Principles for ability to pay. We intend to further explore with them the reasons for the divergence between credit and PPM repayment rates.

2.13. In addition, as shown in Figure 6 below, the average weekly repayment period only slightly increased for electricity and gas customers between 2009 and 2010. Average repayment periods increased by only one and two weeks respectively for electricity and gas credit customers. For PPM customers, the increases were marginally larger, although still only 2 and 3 weeks respectively for electricity and gas. 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.

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



Source: Ofgem, supplier data

Key Principles for ability to pay

2.14. In June 2010, Ofgem published a review of suppliers' approaches to debt management and prevention[6]. This review was carried out jointly with Consumer Focus and followed our joint review of the protection for vulnerable customers from disconnection published in October 2009[7]. Whilst the review identified many examples of good practice amongst suppliers it also 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 developed some key Principles (provided in Appendix 2), that suppliers should use when assessing ability to pay.

2.15. Following our introduction of the key Principles in June 2010, we asked suppliers to report to us to the progress they have made towards embedding the Principles and subsequently met with each supplier to discuss this further.

2.16. Most suppliers have made steady progress to introduce the key Principles, although there remains work to be done by most in terms of providing customers with written confirmation of the agreed arrangement, and in the monitoring of staff who agree arrangements and the success or failure of those arrangements.

- **British Gas** considers that it will have implemented and embedded all of the key Principles for both credit and PPM customers by the end of quarter 2 (June) 2011. It has introduced a proactive early contact strategy where a payment on a repayment scheme has been missed, and where the first bill for customers moving in to a British Gas property has not been paid. It has continued to develop its relationships with third party advice agencies and has adapted a version of the Common Financial Statement to gain a better understanding of an individual customer's circumstances and ability to pay.

- **Npower** has created a number of Centres of Excellence to improve customer service including a dedicated centre for debt management and recovery. The SAFE (Solutions Available for Everyone) team has been expanded and its remit widened to provide specialist help to customers who are unable to afford ongoing consumption regardless of whether they have a debt or the size of the debt, and to customers who have failed three PPM appointments or two repayment arrangements in the last 12 months. Npower anticipates that the roll-out of its new billing system this year will enable it to segment customers more effectively and tailor contact accordingly. In the meantime, proactive contact with customers has developed; npower is trialling the use of voice clips to remind customers on monthly payment plans that a payment is due.

- **E.ON** is undertaking a review of its credit operations follow up process for debt which allow segmentation of customers and better identification of their

[6] Ofgem review of suppliers' approaches to debt management and prevention, June 2010 (Ref: 69/10)
[7] Ofgem review of protection for vulnerable customers from disconnection, October 2009 (Ref: 121/09)

specific needs. It has developed its proactive contact with customers; new customers are called within two weeks of joining to get a meter reading in order to give an indication of how much the first bill will be and identify whether there will be any problems in payment – all new customers are billed within the first month. E.ON has proactively contacted customers paying £10 or over toward a debt, to see whether it remains manageable, and is undertaking an annual review with customers on payment arrangements to see whether their circumstances have changed and the rate is appropriate.

- **EDF Energy** has changed its policy regarding the rate of recovery for PPM debts. The rate will be set at £5 per week for a fixed period for all customers where the rate has not been agreed in advance. EDF also proactively called their PSR customers during cold weather periods to offer help and ensure that they were not experiencing any particular difficulties. It has also extended its support for Citizens Advice to enable it to set up a freephone helpline advice service.

- **ScottishPower** has established a Vulnerable Customer Review Group to consider and improve debt follow-up for those who are vulnerable or having difficulty paying their bill. This has led to changes being made to ensure communications for these customers are tailored appropriately to encourage greater contact from them. It has also introduced conversation loops to guide their agents through the ability to pay conversation with customers.

- **SSE** proactively contacted its vulnerable PPM customers repaying debts of £15 a week or more over the winter period to check their ability to pay. This resulted in a 20% drop in the level of customers repaying at this rate and, in cases of hardship, customer were switched from PPM to credit meters. It has also started a wholesale review of its standard letters to customers such as those due a home or warrant visit, those who had never paid a bill, and new customers who had received a cut off notice, to ensure that they are appropriately tailored to elicit a positive response.

2.17. Whilst we are encouraged by the progress that has been made by suppliers and the development of new initiatives to assist customers in debt, we are keen to ensure that suppliers are continuing to work to provide customers with manageable repayment arrangements. This is particularly essential in the current economic climate where customers may find themselves facing difficulty in meeting their financial commitments and preventing or repaying debt. As noted above, the divergence between credit and PPM repayment rates remains concerning and we intend to look closely at this area.

3. Disconnection for non-payment of debt

Chapter Summary

This chapter reports on the level of gas and electricity disconnections during 2010 and provides an analysis of the overall disconnections picture, including the performance of each of the six major suppliers in this area. It also provides an overview on disconnection trends in Scotland and Wales. Ofgem's work to improve performance in this area is also highlighted in this chapter.

3.1. As outlined in 2.1, when a supplier becomes aware or has reason to believe that a domestic customer is having (or will have difficulty) paying their bills, they are required under the supply licences to offer alternative methods of payment. During winter (1 October to 31 March), suppliers are also prohibited from knowingly disconnecting customers of pensionable age where they live alone or with other pensioners or children. Suppliers must also take all reasonable steps during winter to avoid disconnecting premises where the customer or occupants include a person who has a disability, a chronic sickness or is of pensionable age[8]. Members of the Energy Retail Association[9] (ERA) have also introduced further voluntary protections through their code of practice known as the 'Safety Net'[10]. Among other protections, this precludes the disconnection of vulnerable customers at any time of year.

3.2. As a result of Ofgem's review of the protections for vulnerable customers from disconnection[11], Ofgem secured improvements to the ERA 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. Ofgem also amended 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; a measure aimed at ensuring suppliers take proactive steps to identify vulnerable customers and stop disconnection of vulnerable customers in error. Ofgem also provided guidance on the types of proactive steps it would expect suppliers to take prior to disconnection, including visiting the customer's premises.

3.3. As Figure 7 below illustrates, the total number of disconnections for non-payment of debt fell again in 2010 to 2,801 - a 34% reduction compared to 2009. Of

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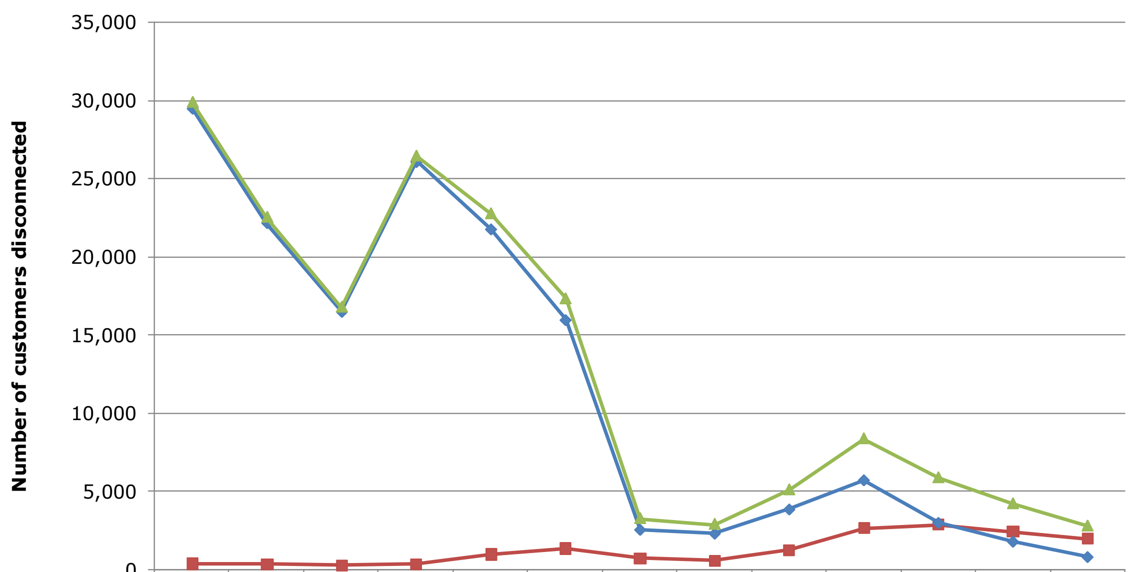
[8] Pursuant to licence conditions 27.10 and 27.11 of the standard gas and electricity supply licence conditions.
[9] The ERA works on behalf of its six member suppliers. Its members are British Gas, EDF Energy, E.ON, npower, ScottishPower and SSE.
[10] The Safety Net is a voluntary code of practice on debt and disconnection run by the Energy Retail Association. British Gas, EDF Energy, E.ON, npower, ScottishPower and Scottish and Southern Energy are signed up to the code.
[11] Review of protection for vulnerable customers from disconnection, October 2009 (Ref: 121/09)

these, 813 were for non-payment of gas (a decrease of 55% compared to 2009) and 1,988 were for non-payment of electricity (a decrease of 18%).

Figure 7: Number of disconnections for non-payment of debt over time



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Electricity	400	373	300	375	995	1,361	727	604	1,258	2,657	2,891	2,433	1,988
Gas	29,500	22,177	16,500	26,088	21,780	15,973	2,553	2,309	3,859	5,727	2,999	1,794	813
Totals	29,900	22,550	16,800	26,463	22,775	17,334	3,280	2,913	5,117	8,384	5,890	4,227	2,801

Source: Ofgem, supplier data

3.4. The reduction in the number of disconnections continues a downward trend since 2007. Previously, disconnections had increased between 2005 and 2007 (although the overall number remained at a much lower level than earlier in the decade). This follows a sharp reduction in the overall number of disconnections between 2001 and 2004, mainly as a result of the significant reduction in gas disconnections over this period. We have previously given a number of reasons for this earlier significant overall reduction, including:

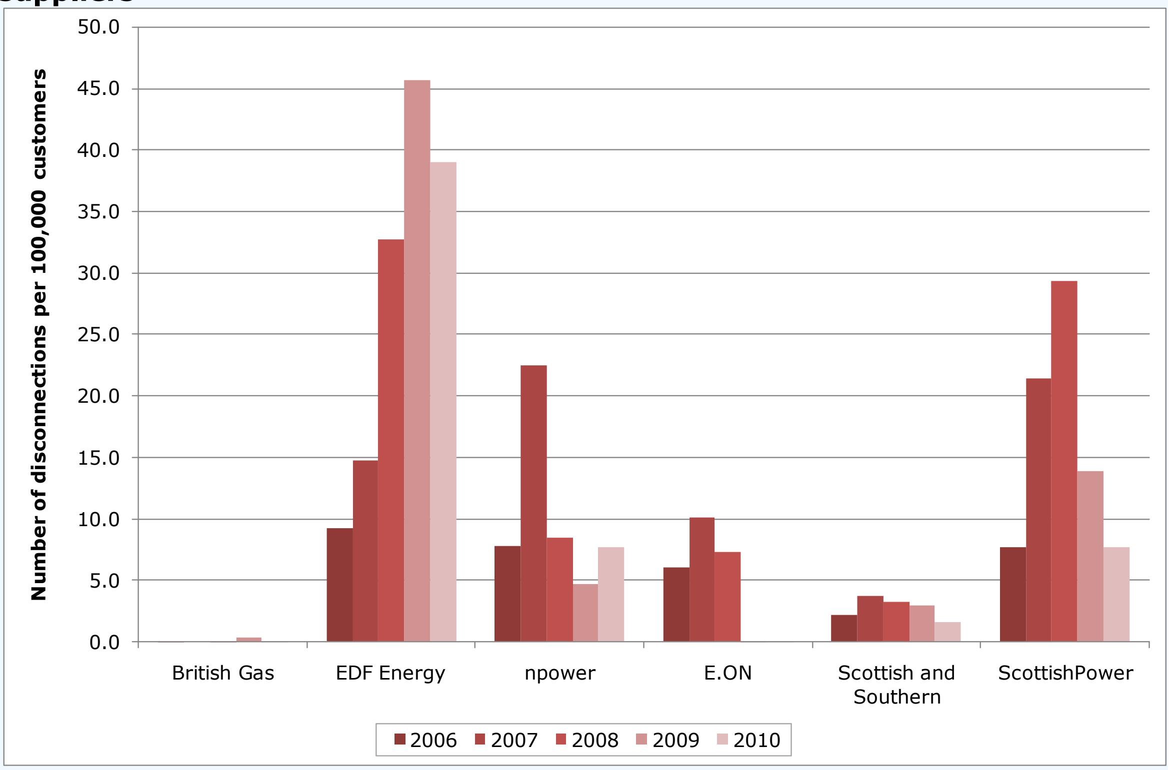
- increased pressure from Ofgem and others on suppliers to disconnect only as a last resort, including Ofgem's work promoting best practice amongst suppliers;
- the installation of PPMs as an alternative to disconnection;
- the introduction of the ERA's voluntary 'Safety Net' which barred the disconnection of vulnerable customers at any time of year; and
- the decision by British Gas to temporarily stop all domestic disconnections – they have stated that they will only disconnect in extreme circumstances.

3.5. E.ON disconnected one electricity customer in 2010 whilst British Gas disconnected two electricity customers.

Electricity disconnections by supplier

3.6. Figure 8, below, shows the number of electricity disconnections per 100,000 customers undertaken by each of the major six suppliers. All of the suppliers reduced their electricity disconnection levels in 2010, except for npower whose disconnection levels per 100,000 customers increased by 65% compared to 2009. npower has told us that this increase is as a result of resuming disconnections following their winter suspension in April rather than May as they did in 2009.

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



Source: Ofgem, supplier data

3.7. EDF Energy's relatively high proportion of electricity disconnections has been identified in previous annual reports. EDF Energy attributes the number of disconnections to their inability to install a PPM where the meter is housed in a communal cupboard/in-take room (common in flats and in areas such as London, where there is a high ratio of flats and EDF Energy is the ex-incumbent supplier) for health and safety reasons. EDF Energy's adoption into normal business practice of temporarily installing the PPM in the in-take room with a limited amount of credit and making an appointment to re-site the PPM within the customer's property has had little impact on their disconnections figure. EDF Energy puts this down to the difficulty it has had in gaining access to the customer's premise to relocate the PPM.

3.8. In the light of EDF Energy's disconnection levels, Ofgem's Chief Executive Alistair Buchanan wrote to, and subsequently met with in August 2010, the Chief Executive of EDF Energy. As a result of this meeting, EDF Energy has suspended domestic disconnections between October 2010 and June 2011 where it has been unable to install an electricity PPM for safety reasons. EDF Energy has also approached ERA to instigate an industry group to discuss how to resolve the safety issues it has faced. Whilst EDF Energy's electricity disconnections decreased by 15% in 2010 it remains the supplier with the highest proportion of electricity disconnections. We will continue to closely monitor EDF Energy's disconnection rates and encourage other industry participants to work with EDF Energy to identify practical solutions to these disconnections issues.

3.9. We have also previously highlighted ScottishPower's relatively high electricity disconnection levels. ScottishPower has reported similar health and safety issues in blocks of flats to those experienced by EDF Energy. As outlined below in the section on gas disconnections, Ofgem has intervened with ScottishPower to encourage a reduction in their disconnection rates. ScottishPower suspended its disconnection activity between the end of November 2010 and the beginning of January 2011. In addition, ScottishPower states that they have continued to work proactively to promote secure payment methods to customers earlier in the debt process. This is reflected in a reduction in the number of customers reaching the later stages of the debt follow up process over the year and thus, less warrants being executed. These actions have resulted in a fall of 45% in the number of electricity customers being disconnected by ScottishPower.

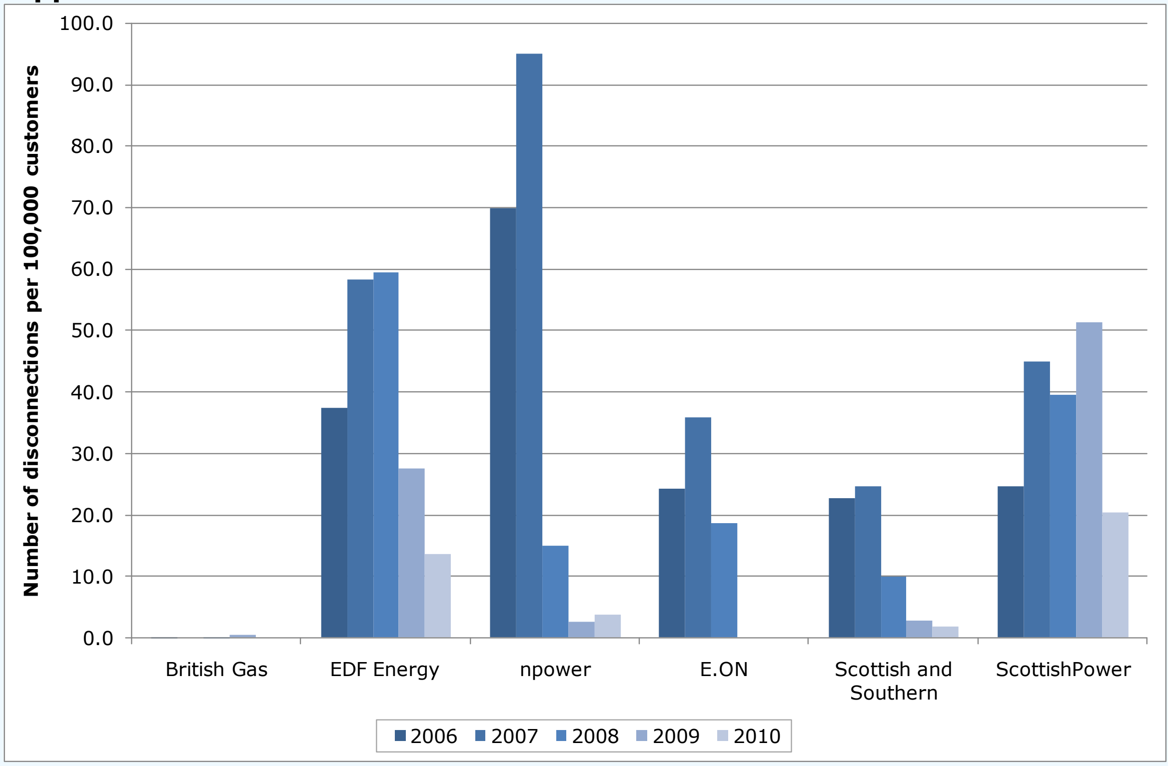
3.10. The number of electricity customers disconnected by SSE fell by 47% from 2009. SSE describe this as being mainly due to the introduction of new initiatives where they proactively contact their customers, including earlier intervention in the debt cycle, new technology such as interactive voice-messaging, text messaging and email (in addition to traditional contact methods such as letters and outbound calling), and contacting high risk customers before they receive a bill to discuss a payment plan.

Gas disconnections by supplier

3.11. Similarly to the case outlined for electricity above, all of the suppliers reduced their gas disconnection levels in 2010, except for npower whose disconnection levels per 100,000 customers increased by 40% from 2009. npower state that this is a result of resuming disconnections following their winter suspension in April rather than May as they did in 2009. SSE's gas disconnections fell by 34% from 2009, for the reasons outlined at 3.10 above.

3.12. Figure 9, below, shows the number of gas disconnections per 100,000 customers undertaken by each of the major six suppliers.

Figure 9: Gas disconnections per 100,000 customers by the six major suppliers



Source: Ofgem, supplier data

3.13. ScottishPower remains the supplier with the highest proportion of disconnections for gas customer per 100,000 customers. In August 2010, Ofgem's Chief Executive, Alistair Buchanan met with the Chief Executive of ScottishPower to highlight Ofgem's concerns. As a result of this meeting, ScottishPower commenced a pilot in October 2010 aimed at identifying measures to address the gas safety issues it has been facing. The pilot involves fitting the PPM where the customer is not present when a warrant of entry is exercised. 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. As with electricity, ScottishPower highlights their proactive promotion of secure payment methods earlier in the debt process and the resultant reduction in the number of customers reaching the warrant stage. As a direct result of these interventions, ScottishPower's disconnections have fallen 60% from 2009.

3.14. Whilst the continuing fall in electricity and gas disconnections is encouraging, it is important that the improvement is continued and we will continue to monitor the success of these initiatives.

Disconnections in Scotland and Wales

3.15. The number of disconnections for both fuels in relation to non-payment of debt in Scotland and Wales fell significantly in 2010. In Scotland in particular, disconnections for electricity fell from 79 in 2009 to 17 in 2010 (a 78% reduction) and from 269 to 94 (a 65% reduction) for gas. Similarly, electricity disconnections in Wales almost halved from 49 in 2009 to 25 in 2010 and gas disconnections fell from 72 to 32 (a 56% reduction). These show predominantly higher reductions – particularly for electricity - than those seen across Great Britain as a whole (electricity disconnections down 18%, gas disconnections down 55%).

3.16. Per 100,000 customers, the number of disconnections for electricity in Scotland and Wales is lower than the proportions seen in Great Britain as a whole. There were 0.59 disconnections in Scotland and 1.92 disconnections in Wales for electricity per 100,000 customers, compared to 7.3 across Great Britain as a whole[12]. For gas however, Scotland shows 4.26 and Wales 3.55 disconnections per 100,000 customers, compared to 3.6 across Great Britain as a whole[13].

[12] This figure is heavily skewed by EDF Energy's higher electricity disconnection figures. Excluding EDF from this analysis, there were 2.5 disconnections per 100,000 electricity customers across GB as a whole.
[13] These figures relate to the six major suppliers.

4. Prepayment meter customers

Chapter Summary

This chapter focuses on prepayment meters (PPMs) in 2010, giving information and analysis on the number of PPM customers, the reason for the installation of PPMs and information on token PPMs.

4.1. Before disconnecting a customer, suppliers have a licence obligation to take all reasonable steps to recover outstanding charges by using a PPM where it is safe and reasonably practicable in all the circumstances for the domestic customer to do so[14]. Previous research by Ofgem has shown that many customers like PPMs because they provide a useful mechanism for budget management and debt avoidance. However, whilst PPMs can be a valuable alternative to disconnection, 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. Our Energy Supply Probe found that certain PPM price premiums that did not appear to have sound cost justifications. As a result, Ofgem introduced new licence conditions to address unfair price differentials for domestic customers and ensure that they are cost reflective[15] from 1 September 2009. In our Retail Market Review[16], published March 2011, we note that suppliers have dramatically decreased the premium charged to PPM customers with respect to their standard credit customers. Some suppliers now charge less, per year, to their PPM customers. This has had the effect of bringing down the differential between PPM and standard credit, so that, PPM customers now pay, on average, £20 less than standard credit customers for their gas and electricity.

4.3. Figure 10, below, shows that there was an overall increase in the number of customers paying through a PPM in 2010: the number of electricity PPM customers increased from 3.8 million in 2009 to 4 million in 2010. The long term upward trend in the number of gas PPMs over the last decade also continued, with the number of gas PPM customers increasing by 0.1 million to 2.7 million in 2010. Historically, the number of gas PPM 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, as noted in the last chapter, these issues have been gradually addressed and there has been an increased willingness on the part of suppliers to install gas PPMs as a more common alternative to disconnection.

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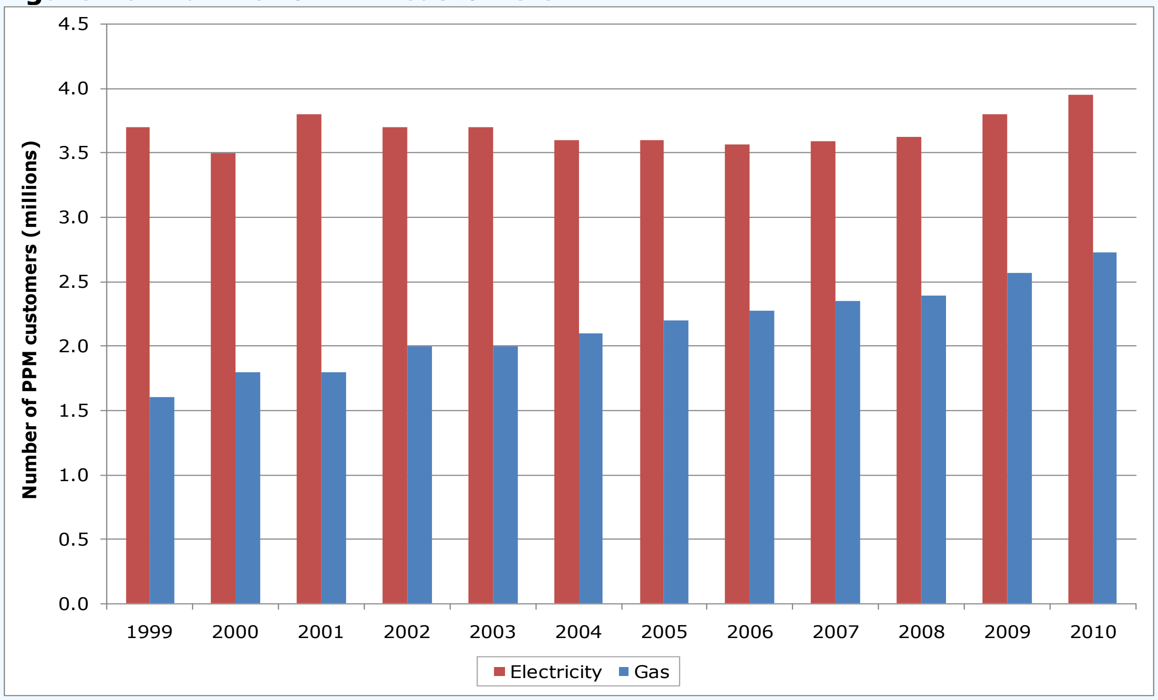
[14] Pursuant to licence condition 27.9 of the standard gas and electricity supply licence conditions.
[15] Ofgem report on addressing undue discrimination, June 2009 (Ref: 72/09)
[16] Ofgem's Retail Market Review – findings and initial proposals, March 2011 (Ref: 34/11)

Figure 10: Number of PPM customers



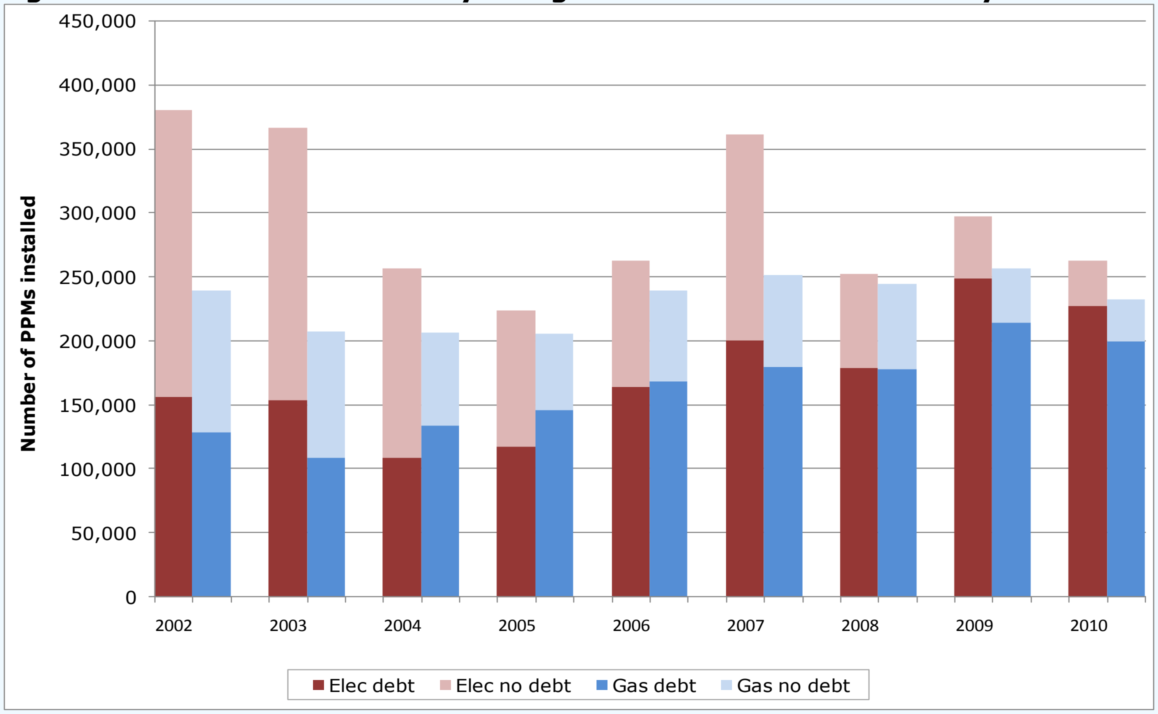
Source: Ofgem, supplier data

PPM installation rates

4.4. As shown below in Figure 11, PPM installation rates reduced across both fuel types in 2010. The most significant declines within this were the rates of electricity and gas PPM installation where there was no debt, which saw reductions of 27% and 23%, respectively from 2009 (usually this would mean installation has taken place at the request of the customers). The number of PPMs installed to recover debt also decreased in 2010, in electricity by 9% and in gas by 7%. This is in contrast to the overall increase in PPMs installed to recover debt between 2008 and 2009.

4.5. Some suppliers have told us that these decreases in installation (both for debt and non debt) are partly as a result of the adverse weather conditions experienced at the end of 2010 which affected the number of metering jobs, including PPM installation jobs, they were able to carry out.

Figure 11: Number of electricity and gas PPMs installed in 2010 by reason



Source: Ofgem, supplier data

4.6. In 2010, the number of electricity PPMs installed for reasons other than debt decreased by 27%. This follows the decreasing trend seen since 2004[17]. There was a similar decrease of 23% in the number of gas PPMs installed for reasons other than debt.

4.7. There has been a decrease in the number of customers changing from PPM to credit; by 19% for electricity and 15% for gas compared with 2009. None of the suppliers refused a change from PPM to credit to electricity or gas customers without a debt with the exception of E.ON who refused 5,652 electricity customers in 2010. E.ON claim this increase may be reflective of significant tightening of their internal and external credit checking policy and practices. We will follow up with E.ON the reasons for this.

Debt blocking and the debt assignment protocol

4.8. As part of Ofgem's package of Probe remedies, the supply licence was amended in January 2010 to extend the Debt Assignment Protocol (DAP). This allows PPM customers who owe up to £200 (up from £100) to switch supplier and transfer their debt to their new supplier. The change helps vulnerable customers who are

[17] 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.

disproportionately represented among those in debt and on a PPM, to get a cheaper energy deal with an alternative supplier.

4.9. Whilst the number of customers using the DAP has increased, the number of those customers who have successfully transferred their debt to a new supplier remain low. We have also noted an increase in the number of objections due to an outstanding debt on a PPM. We will look into the reasons for this and will continue to monitor the trends in the debt assignment protocol figures.

Token PPMs

4.10. Token PPMs are older technology meters which need to be recalibrated manually at the customer's premises following a price change. Suppliers are continuing to complete their programmes to replace these older meters with newer technology PPMs. Ofgem worked with suppliers to ensure they had appropriate arrangements in place as part of their phase-out programmes, and that customers were not left off supply. As part of this work we developed principles detailing the minimum steps that we expected to be included in their token PPM withdrawal programme. These can be found in our previous updates published on our website[18].

4.11. There were around 4,000 token PPMs remaining in customers' homes across all suppliers at the end of December 2010. This is a reduction of over a million since Ofgem published its December 2006 statement of good practice and a reduction of over 60,000 during 2010. All suppliers have largely completed 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 and suppliers are continuing to review the remaining token PPMs. Npower and ScottishPower have confirmed that they do not have any customers consuming power through a token PPM.

[18] http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Pages/Publications.aspx

5. Help for vulnerable customers

Chapter Summary

This chapter outlines key trends identified in relation to suppliers' licence obligations to assist vulnerable customers through suppliers' Priority Services Registers (PSRs), including information on the number of PSR customers in Scotland and Wales. It also looks at trends in the provision of energy efficiency advice and information, particularly to PSR customers and customers in debt, and the provision of free gas safety checks to customers. It also examines levels of uptake 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 (PSR)

5.1. Domestic suppliers have a licence obligation to maintain a Priority Services Register (PSR). The PSR is a list of all customers who are of pensionable age, have a disability or a chronic sickness, 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.

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

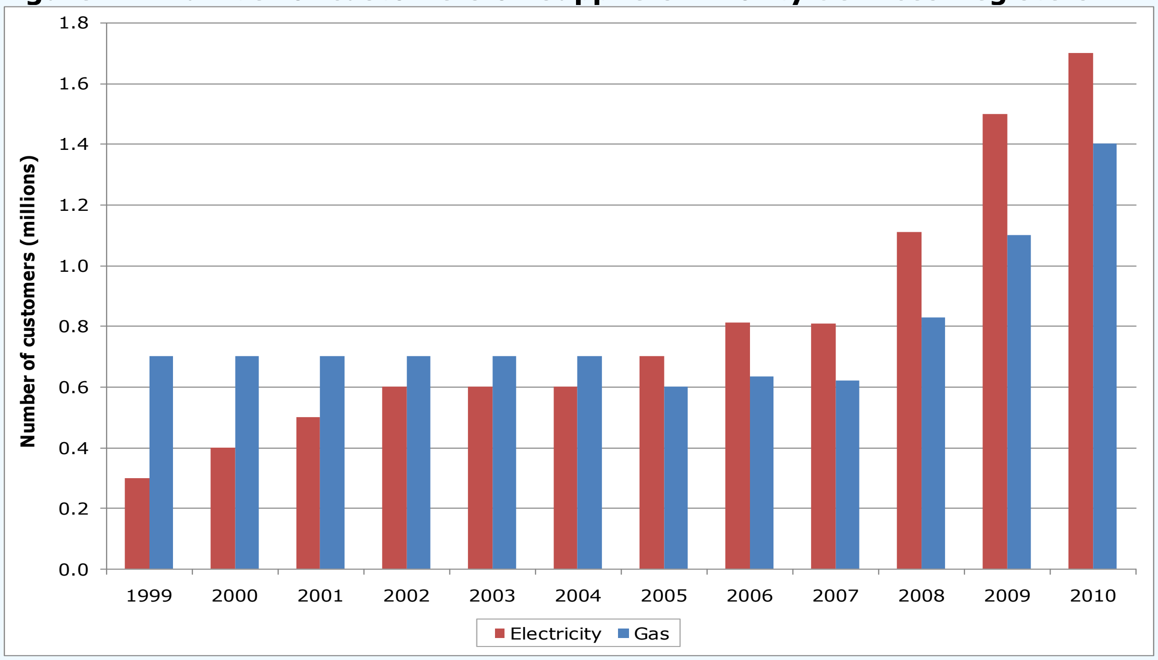
5.3. Suppliers must also, at least once a year, take all reasonable steps to make all of their domestic customers aware of the PSR and how eligible customers can be registered.[19] In addition, some suppliers use their PSRs to help target other forms of assistance such as their social programmes.

Number of customers on suppliers' PSRs

5.4. In 2010, the number of customers on suppliers' PSRs increased by 0.2 million (13%) for electricity and 0.3 million (27%) for gas. As shown in Figure 12 below, this follows similar increases in 2008 and 2009.

[19] Pursuant to licence conditions 26.4 to 26.6 of the standard gas and electricity supply licence conditions.

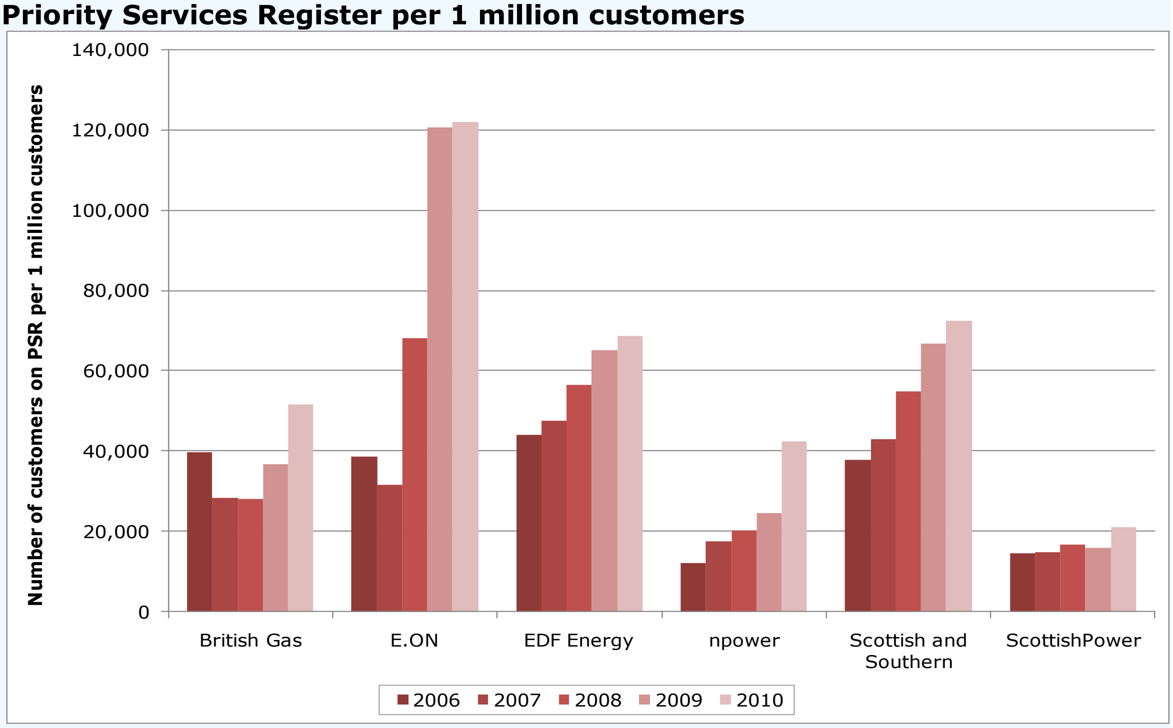
Figure 12: Number of customers on suppliers' Priority Services Registers



Source: Ofgem, supplier data

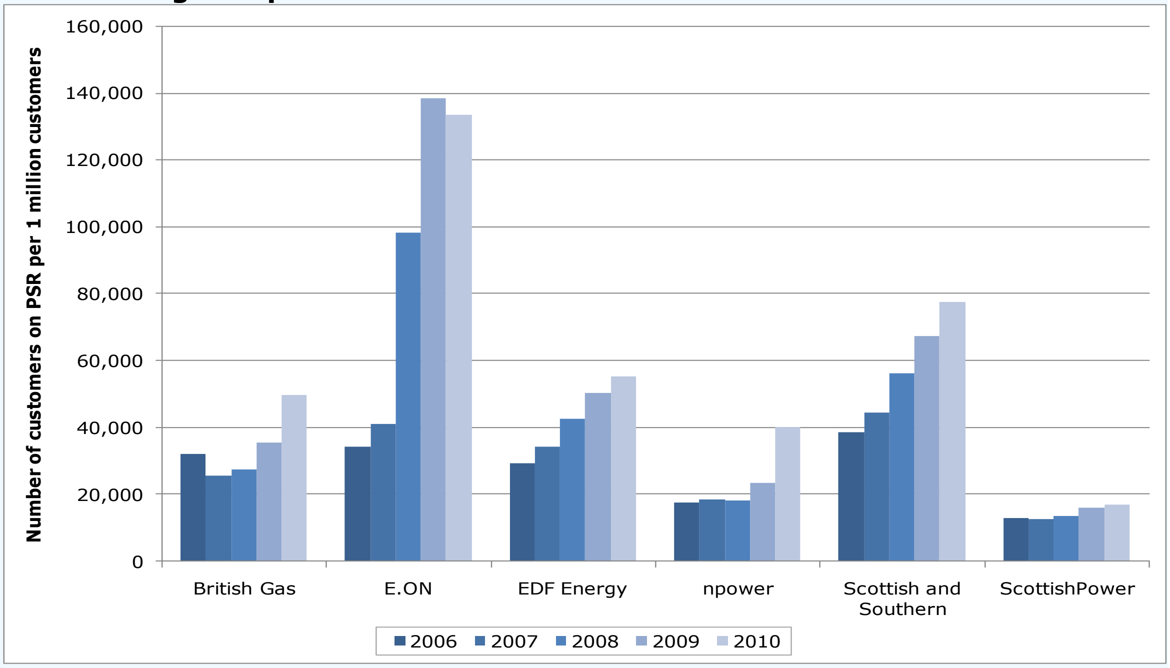
5.5. Figures 13 and 14 below show the number of customers (per 1 million) on each of the major six supplier's electricity and gas PSRs.

Figure 13: Number of electricity customers on each major six supplier's Priority Services Register per 1 million customers



Source: Ofgem, supplier data

Figure 14: Number of gas customers on each major six supplier's Priority Services Register per 1 million customers



Source: Ofgem, supplier data

5.6. Per 1 million customers, E.ON still has the highest number of customers registered on its PSR for both fuels, although for gas the number has decreased slightly. British Gas and npower both saw significant increases in the number of customers registered on their PSRs in 2010 per 1 million customers – showing, respectively, a 41% and 73% increase for electricity customers and 40% and 70% increase for gas customers.

5.7. British Gas has explained that its increase is due to significant promotion of vulnerability awareness to both staff and customers, along with a number of community projects. They have worked to ensure customers know when they are eligible for different special vulnerable services and enhanced the support and services available to their vulnerable customers.

5.8. npower has told us that its increase is due to additional training and awareness of the PSR with staff who deal directly with customers. In addition, npower notes that a further contributing factor to the rise in the number of customers registered on its PSR is the amount of external promotion of the PSR by consumer groups and suppliers' Home Heat Helpline[20].

[20] The Home Heat Helpline is run through the Energy Retail Association (ERA) and is funded by the six major energy suppliers. It provides a telephone line to advise and refer customers on energy efficiency and fuel poverty issues and takes email requests for information through its website. More information is available from the Home Heat Helpline's website at www.homeheathelpline.org.uk

5.9. 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.

5.10. Although ScottishPower saw a 33% increase in the number of electricity customers on its PSR in 2010 per 1 million customers, the number of gas customers on its PSR per 1 million customers only increased by 5.2%. It also continues to have the lowest number of electricity and gas customers on its PSR (per 1 million customers) of all the six major suppliers. Similarly, while npower saw substantial increases in 2010, it continues to have the second lowest number of customers on its PSR. We encourage these suppliers to continue to improve their performance in this area.

Number of customers on suppliers' PSRs in Scotland and Wales

5.11. In 2010, the number of customers registered on suppliers' PSRs in Scotland increased by 6% for both electricity and gas customers. This is proportionally much lower than the increases (13% and 27% respectively for electricity and gas) seen across the whole of Great Britain. Per 1 million customers, the number of customers on PSR in Scotland is also significantly lower than the proportions seen in Great Britain as a whole. In Scotland, there are 46,262 electricity customers and 44,268 gas customers on PSR per 1 million customers, compared with, respectively, 65,035 and 61,347 per 1 million customers across Great Britain as a whole.

5.12. In Wales however, the number of customers on suppliers' PSRs increased by a greater extent than that seen for Great Britain overall: increasing by 28% for electricity and 47% for gas. Per 1 million customers, the number of customers on PSRs in Wales is also higher than that seen in Great Britain as a whole, particularly for gas. In Wales there are 70,965 electricity customers and 88,092 gas customers per 1 million customers on PSR.

Free gas safety checks

5.13. Suppliers are obliged under their licence conditions[21] to provide a free gas safety check upon request to households containing children under 5 years old, and domestic customers who are of pensionable age, have a disability or a chronic sickness, living alone or living with others of pensionable age, disabled, under 18 or chronically sick, when they are:

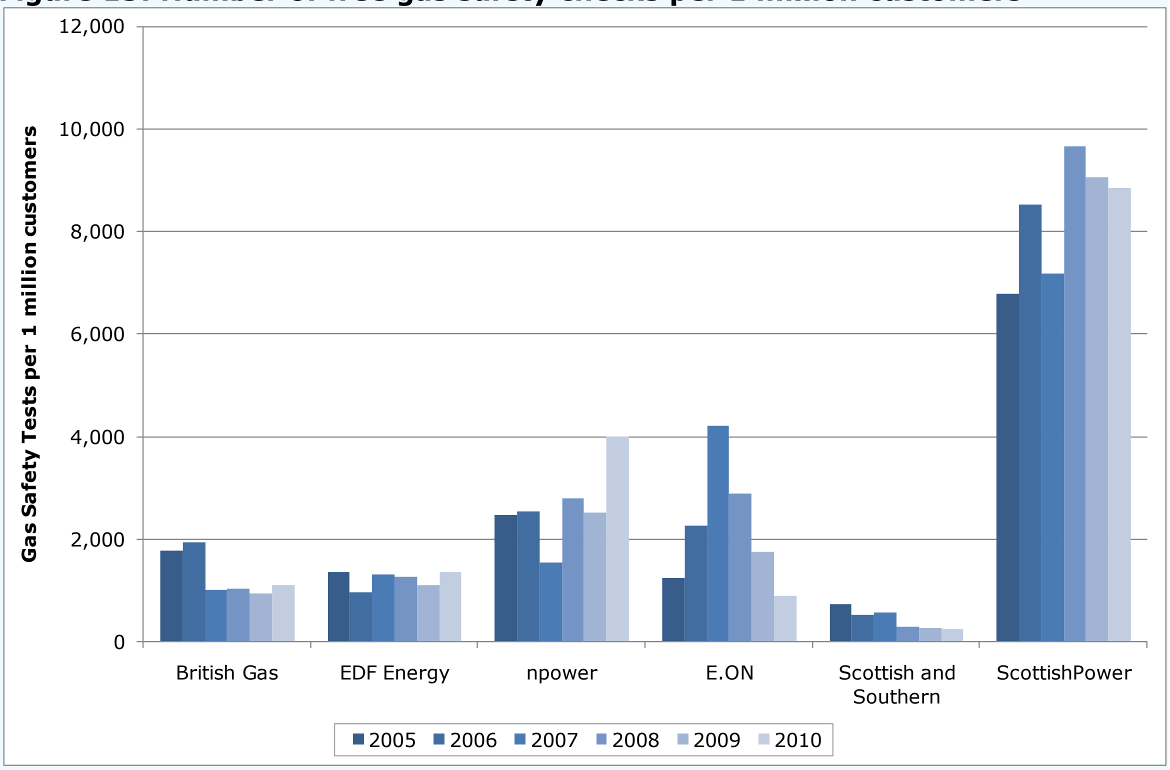
- living in households where the landlord is not responsible for arranging a gas safety check;
- in receipt of means tested benefits and;
- households which have not had a gas safety check in the last 12 months or such longer period as may be directed by the Authority.

[21] Pursuant to licence condition 29 of the standard gas supply licence conditions.

5.14. In 2010, there was a 7% increase in the overall number of free gas safety checks. In contrast, E.ON reported a decrease of 49%. E.ON has stated that this is due to a change in process during 2009, whereby improved checks are now in place to identify customers' eligibility.

5.15. Despite a slight decrease, ScottishPower continues 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 it is required to check under its licence obligation.

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



Source: Ofgem, supplier data

Free gas safety checks in Scotland and Wales

5.16. In Scotland and Wales a more varying picture can be seen. In 2010, there was a slight decrease of 8% in the overall number of free gas safety checks in Scotland and a substantial increase of 69% in Wales.

Energy efficiency

5.17. 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.

5.18. 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 scheme to help carbon reduction in the domestic sector that came into force on 1 September 2009. Both schemes are due to close at the end of 2012. It is intended that they will be replaced by new schemes; the Green Deal, and the Energy Company Obligation, aimed at improving energy efficiency in homes[22].

5.19. 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. That group comprises consumers who are in receipt of specific income related benefits or tax credits, or who are over the age of 70. Since April 2011, suppliers are also required to deliver an additional 15% of the savings through a subset of low income households (a Super Priority Group) considered to be at high risk of fuel poverty. 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.

5.20. 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. Energy efficiency information and advice can help to alleviate fuel poverty, assist those in debt and can help to avoid fuel rationing. This is particularly important in the current economic climate which may have an especially adverse impact on vulnerable customers and those struggling to pay.

Energy efficiency information

5.21. Under the gas and electricity supply licences, suppliers are obliged[23] to provide information about the efficient use of gas and electricity to domestic customers that 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 and electricity and also other sources of information and assistance about measures to improve the efficiency with which they use gas and electricity. This includes information about financial assistance available through government schemes to improve energy efficiency in the home.

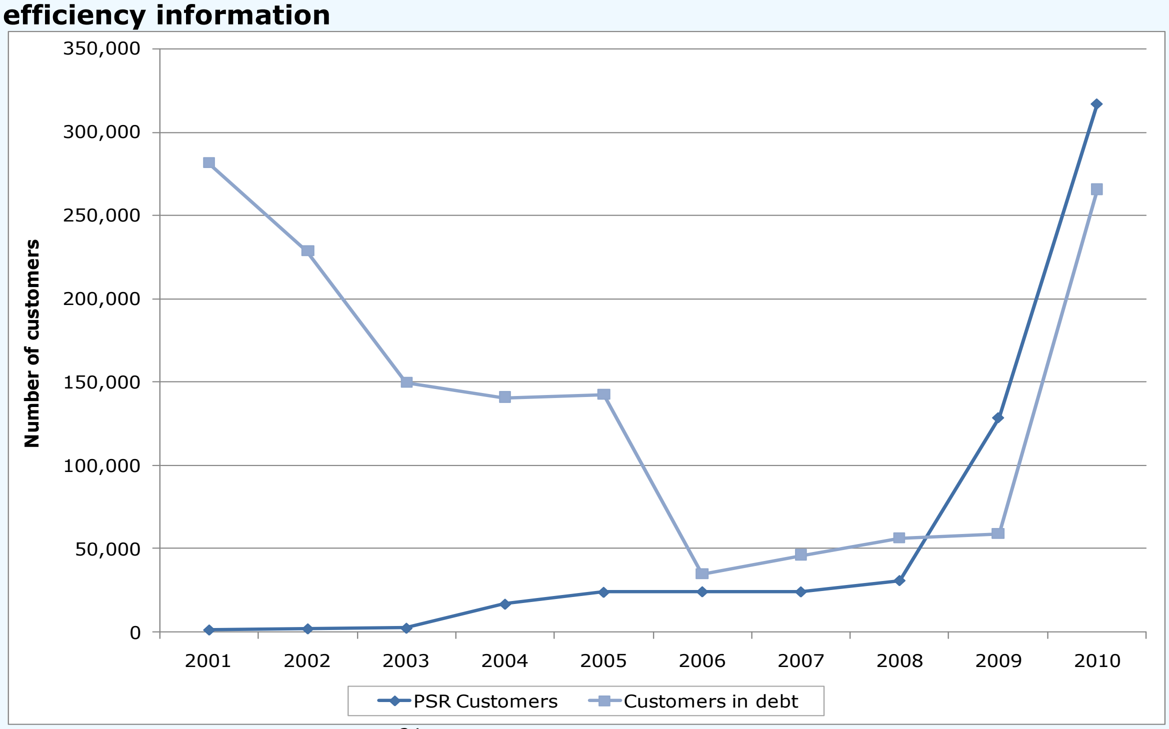
5.22. Suppliers are also required to provide debt management and energy efficiency advice to customers if the supplier objects to the customer switching on the grounds of debt. This rule was introduced from 1 January 2010 as a result of the Energy Supply Probe.

[22] For more information on Green Deal and the Energy Company Obligation please see the Department of Energy and Climate Change's website (www.decc.gov.uk)
[23] Pursuant to licence condition 31 of the standard gas and electricity supply licence conditions.

5.23. 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. They are more likely to 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 more likely to be in fuel poverty and may ration fuel consumption to try to avoid getting into debt. We ask for detail on initiatives to proactively target these groups of customers. For the purposes of reporting this data we include verbal or written information, including general information given by customer service staff to customer enquiries, but not website downloads.

5.24. Figure 16 below shows there has been a significant increase (146%, 188,422 customers) in the number of PSR customers and customers in debt receiving energy efficiency information in 2010. This can mainly be attributed to a very notable increase by British Gas in the provision of energy efficiency information to PSR customers, who received advice via their Home Energy Care team and specialist energy efficiency helpline. British Gas has told us that it significantly increased the provision of energy efficiency advice and services to its customers in 2010 which it will continue in 2011 with the formation of the British Gas New Energy Directorate.

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



Source: Ofgem, supplier data[24]

[24] This graph does not include a further 1.9 million 'Ways to Pay' leaflets, including energy efficiency information, distributed to those customers in debt by British Gas via letter and email.

5.25. SSE reported an increase in advice to PSR customers of almost 50,000. SSE has told us that it has had an increased focus on its vulnerable customers and that, during the recent cold winter, its advisors were more proactive in ensuring energy efficiency information was offered to its most vulnerable customers. In 2010, only npower and ScottishPower reported decreases in their provision of energy efficiency information to PSR customers. npower has told us that its decrease is due to 80,000 leaflets due to be circulated in December being delayed as a result of the severe weather and related delays in the postal service. These leaflets are now due to be circulated in Q1 2011 instead and a further mailshot is intended later in the year.

5.26. Figure 16 above shows that the provision of information to customers in debt has also increased substantially in 2010 - by 350%. Again, British Gas has seen the most notable increase (579%)[25] whilst npower saw an increase of 415%. Of the six major suppliers, only E.ON[26] and ScottishPower saw decreases in their provision of energy efficiency information to customers in debt (32% and 6% respectively).

Energy efficiency advice

5.27. Ofgem also collects data on suppliers' provision of energy efficiency advice. This refers to specific advice given by a specialist energy efficiency advice line or by a qualified staff member. Provision of general information by non-qualified customer service staff is excluded.

5.28. As shown below in Figure 17, there was an increase of 106% in the number of customers receiving energy efficiency advice.

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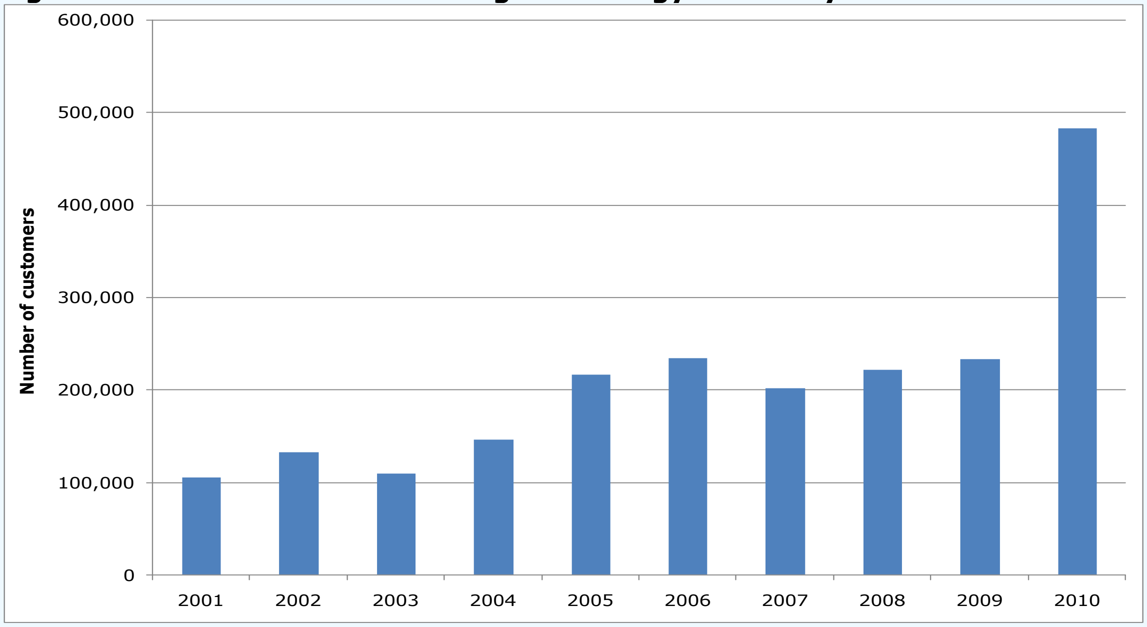
[25] This figure does not include a further 1.9 million 'Ways to Pay' leaflets, including energy efficiency information, distributed by British Gas via letter and email.
[26] E.ON's figures are based on calls taken by their specialised energy efficiency team. This team deal with referrals and calls direct from customers for those needing specific help and advice. E.ON does carry out various other targeted marketing campaigns and initiatives regarding energy efficiency, however these figures are not currently reported here but are over and above 10,000.

Figure 17: Number of customers given energy efficiency advice



Source: Ofgem, supplier data

5.29. In 2010, British Gas and npower reported increases in their provision of energy efficiency advice - by 951% and 5% respectively. In contrast, E.ON, EDF Energy, SSE and ScottishPower reduced their provision of energy efficiency advice by 3%, 21%, 35%, and 4% respectively. In terms of providing energy efficiency advice as a proportion of total customer base, British Gas, npower and ScottishPower are the highest performers with British Gas giving advice to around 312,919 of its customers, npower 40,773, and ScottishPower 36,902. SSE has told us that their decrease in the provision of energy efficiency advice may be due to customers gaining energy efficiency advice from other third parties such as the Energy Saving Trust or obtaining energy efficiency information online.

5.30. Energy efficiency information and advice can help to prevent and/or alleviate energy indebtedness and fuel poverty and can help to avoid fuel rationing to avoid debt. By informing customers, promoting energy efficiency measures and encouraging behavioural change, suppliers can impact positively on these issues. We continue to monitor trends in this area and strongly encourage suppliers to work proactively in supporting customers to reduce their necessary fuel consumption as part of an ongoing holistic approach to addressing customer debt.

Fuel Direct

5.31. 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.

5.32. Fuel Direct has a number of benefits for customers, 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. It can be a valuable means of facilitating regular payment and assisting vulnerable customers on low incomes who are struggling to budget effectively. A customer has to be in debt to their energy supplier for at least one fuel type to be eligible but can choose to stay on Fuel Direct after the debt has been repaid.

5.33. Suppliers have an obligation under their licence conditions[27] 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.

5.34. In line with their licence obligation, suppliers must offer, amongst other options, 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 usually have an energy debt of over £67.50 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:

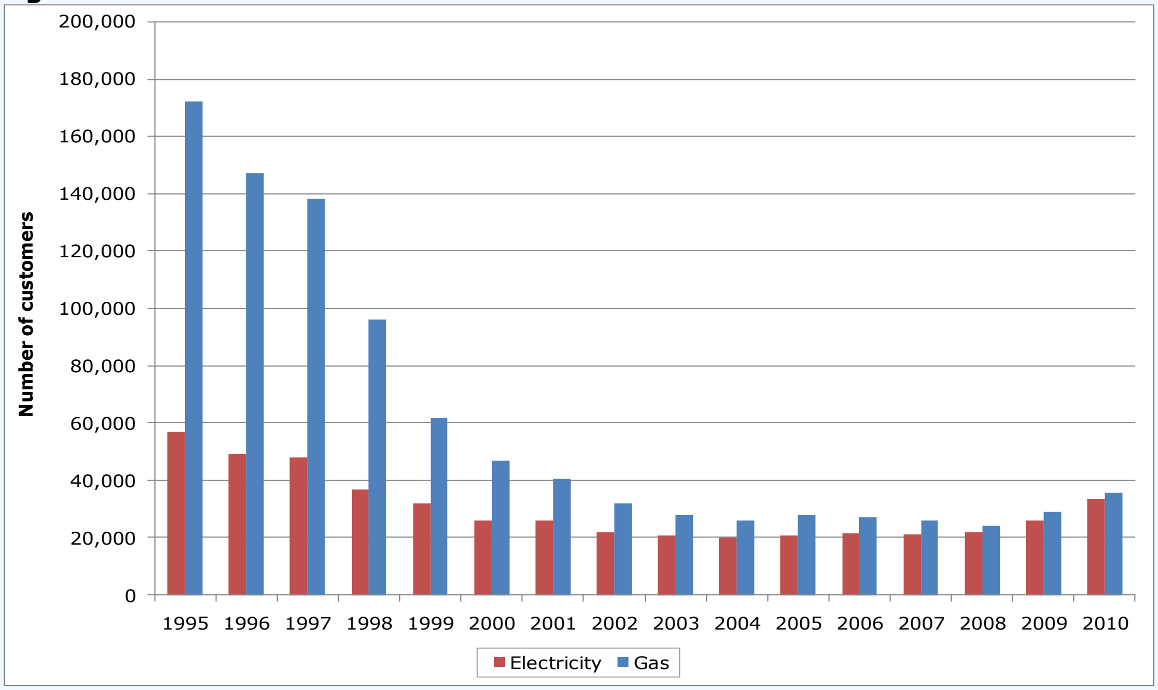
- repayment of debt through a PPM is not a suitable option because:
    - a PPM cannot be installed due to safety reasons;
    - access to crediting facilities is inconvenient or difficult because of additional travelling time or expense, or the customer suffers from mobility problems;
    - those living 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.

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

5.36. Figure 18 below shows that in 2010, the number of customers paying by Fuel Direct increased by 29% for electricity and 22% for gas compared to 2009. This continues the trend from 2008. Nevertheless, the number of customers on Fuel Direct remains low.

[27] Pursuant to licence conditions 27.5 and .6 of the standard gas and electricity licence conditions.

Figure 18: Number of customers on Fuel Direct



Source: Ofgem, supplier data

5.37. This nationwide increase in Fuel Direct customers may be indicative of an enhanced relationship between the DWP and suppliers, allowing for more applications to be processed. ERA and suppliers have met with DWP to better understand Fuel Direct, and DWP offered to help suppliers with staff training on the scheme. DWP also has plans to automate the process (which is currently manual) that suppliers' use when they apply to put a customer on Fuel Direct and update a customer's consumption details.

5.38. 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

5.39. Since 2008 Ofgem has monitored and reported on the six major energy suppliers' commitments under the Voluntary Agreement. This was an agreement between the government and the major six energy suppliers which set out a commitment for suppliers to provide direct and indirect support to customers likely to be in fuel poverty[28]. An increase in suppliers' collective expenditure of £225m on their social programmes over the 2008-2011 period was agreed. This was delivered incrementally over the three year period so that suppliers' collective spend in the first

[28] A fuel poor household is defined as a household spending more than 10% of their annual income to adequately heat their home.

year of the agreement (2008/9) was £100m; £125m in 2009-10 and rising to £150 million in the last year of the agreement (2010/11). In September 2010, Ofgem reported on suppliers' performance for the second year of the agreement (2009-10)[29]. We will report on the final year of the agreement later in 2011.

5.40. Government has recently mandated electricity suppliers to provide support through the Warm Homes Discount (WHD) scheme, a new mandatory scheme that will replace the previous voluntary agreement with energy suppliers to provide further, better targeted support to those in or at risk of fuel poverty. Worth up to £1.1 billion, the scheme will run for four years from April 2011 - 2015. Suppliers are required to spend £250 million in 2011/12 rising to £310 million by 2014/15.

5.41. The Department of Energy and Climate Change (DECC) is responsible for the Warm Homes Discount scheme and published its response to the consultation on the scheme in February 2011[30]. Ofgem's role within the scheme is to monitor and assist supplier compliance with their new obligations under the scheme. Ofgem published guidance to suppliers on the scheme in May 2011.[31]

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[29] Ofgem report on monitoring suppliers' social programmes 2009-10, September 2010 (Ref: 121/10)
[30] Department for Energy and Climate Change's response to the consultation on the Warm Home Discount, February 2011 – available at www.decc.gov.uk
[31] Warm Home Discount: Guidance for Licensed Electricity Suppliers and Licensed Gas Suppliers, May 2011 (Ref: 64/11)

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 Guidance on Monitoring Suppliers' Performance, November 2007. The 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 the 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

1.4. In accordance with their supply licence conditions[32], 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

[32] Pursuant to standard licence condition 27.8 of the gas and electricity supply licences.

- There must be clear communication with the customer which allows them to understand:
    - how much they are repaying each week;
    - when the debt will be repaid; and
    - what to do if they experience difficulties.
    - For PPM customers this includes explaining that debt will be recovered regardless of usage (eg over the summer).

Monitoring of arrangements after they have been set up

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

Appendix 3 – The Authority's Powers and Duties

1.5. 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).

1.6. 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.

1.7. References to the Gas Act and the Electricity Act in this appendix are to Part 1 of those Acts.[33] 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.[34]

1.8. 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.

1.9. 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.

1.10. 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

[33] Entitled "Gas Supply" and "Electricity Supply" respectively.
[34] 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.

competition) in which the Authority could carry out those functions which would better protect those interests.

1.11. 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[35]; and
- the need to contribute to the achievement of sustainable development.

1.12. 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.[36]

1.13. 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[37] 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.

1.14. 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.

1.15. 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

[35] 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.
[36] The Authority may have regard to other descriptions of consumers.
[37] Or persons authorised by exemptions to carry on any activity.

sewerage services (within the meaning of the Water Industry Act 1991), which are affected by the carrying out of that function.

1.16. 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[38] 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.

[38] Council Regulation (EC) 1/2003.