



Consumer Bulletin

Social obligations annual report

Domestic energy suppliers provide us with data on a quarterly and annual basis in relation to debt, disconnection, prepayment meters and help given to their vulnerable customers. We use this data to review suppliers' performance in these areas.

In June¹ we published the 2010 annual report which gives a comprehensive overview of suppliers' performance and practice for January - December 2010. The key findings are:

- Disconnections continued to decrease in 2010, particularly for gas customers.
- The number of customers repaying a debt has fallen.
- A decrease in average weekly repayment amounts.
- An increase in the number of prepayment meter customers.
- The number of customers paying by Fuel Direct has increased for the second year.
- The number of customers on suppliers' Priority Services Registers has continued to increase.
- Suppliers' have made good progress on embedding the key Principles² for ability to pay.
- For the first time this report includes separate data for 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 (and at a greater rate than across Great Britain as a whole).

Debt - Last year's report (2009) highlighted the need for suppliers to do more to take account of their customers' ability to pay in setting debt repayment rates. We developed a new set of principles and it is good to see in this year's report that suppliers are beginning to embed these best practice principles.

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 prepayment meter 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, 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. Encouragingly, average weekly repayment amounts fell for credit and prepayment meter customers in both gas and electricity. This suggests that the key Principles for taking ability to pay into account may be having an impact.

Continued overleaf

Stop press

Ofgem has fined British Gas £2.5 million after our investigation found that they had breached regulations setting standards for the way energy companies handle customer complaints.

We found that British Gas had:

- failed to re-open complaints when the customer had indicated that the complaint was not resolved
- failed to provide customers whose complaint they could not resolve with some key details about the redress service provided by the Energy Ombudsman
- failed to put in place adequate processes and practices for dealing with complaints from micro-businesses.

Since we began the investigation in June 2010, British Gas has taken action to improve its complaint handling systems and ensure it is compliant with our regulations. The complaint handling regulations took effect from October 2008 and complement the role of the Energy Ombudsman. The regulations set out the service that domestic and micro-business energy customers should expect from energy companies if they raise a complaint.

We are currently investigating Npower and EDF Energy for complaint handling; Scottish Power, Scottish and Southern Energy, EDF Energy and Npower for misselling; and undertaking two investigations into Scottish Power for potentially misleading marketing and the difference between its Standard Credit and Direct Debit Tariffs.

¹Covers social obligations under the supply licence conditions but not suppliers' activities related to their expenditure on voluntary social initiatives - these are reported on separately and can be found on our website.

²In accordance with their supply licence conditions, 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 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.

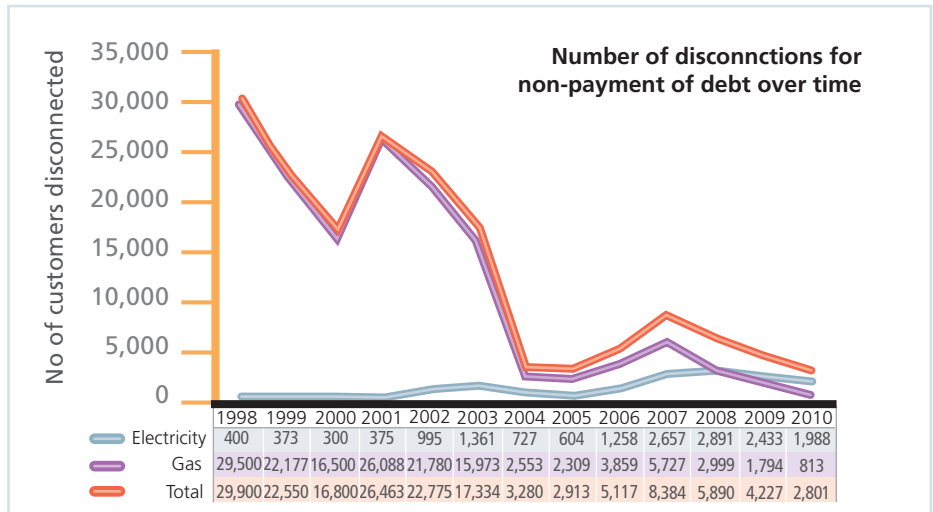
Social obligations annual report continued

Mirroring the pattern across Great Britain as a whole, within Scotland and Wales the number of electricity and gas customers repaying a debt fell in 2010. The reductions were 16% for electricity and 5% for gas customers in Scotland and 15% for electricity and 6% for gas customers in Wales compared to 2009. Similarly, the number of prepayment meter electricity customers repaying a debt has decreased in Scotland and Wales – by 29% and 25% respectively compared to 2009. Unlike the British trend however, the number of prepayment meter 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 prepayment meter gas customers repaying a debt is 11% in Scotland and 14% in Wales.

Disconnections – For non-payment of debt the number of disconnections has decreased by over a third. Overall disconnections from 4,227 to 2,801 represent a reduction of 55% in the number of gas disconnections and a fall of 18% in the number of electricity disconnections. 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.

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. 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.

Prepayment meters – There has been an increase in the number of electricity and gas customers paying through a prepayment meter 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 prepayment meter.



Latest Quarter One 2011 stats

The number of disconnections for debt fell compared to the same quarter in 2010. Electricity disconnections decreased by 89% from Q1 2010 and gas disconnections were 82% lower than in Q1 2010. It is encouraging to see continuing improvements in this area. The protections Ofgem has put in place through licence conditions and the measures industry has taken with Ofgem to strengthen the ERA Safety Net have resulted in significant reductions in disconnections over recent years. Nevertheless, it is important that all suppliers work to ensure that these trends are maintained.

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 prepayment meter customers with respect to their standard credit customers. The differential between repayment meter and standard credit has narrowed so that prepayment meter customers now pay, on average, £20 less than standard credit customers for their gas and electricity.

In January 2010 we also amended the supply licence to extend the Debt Assignment Protocol which allows prepayment meter 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 disproportionately represented among those in debt and on a prepayment meters to get a cheaper energy deal with an alternative supplier.

Whilst the number of customers using the Debt Assignment Protocol has increased, the number of those customers who have successfully transferred their debt to a new supplier remains low. We will look into the reasons for this and will continue to monitor the trends in the debt assignment protocol figures.

Help for vulnerable customers - In 2010, the number of customers on suppliers’

Priority Service Register³ increased by 27% for electricity and 36% for gas. The number of customers registered in Scotland increased by 6% for both electricity and gas customers. This is proportionally much lower than the increases seen across the whole of Great Britain. In Wales however, the number of customers on suppliers’ Priority Service Registers increased by a greater extent than that seen for Great Britain overall: increasing by 28% for electricity and 47% for gas.

In 2010, the number of customers paying by Fuel Direct⁴ increased by 29% for electricity and 22% for gas. Those on Fuel Direct still represent a small proportion of all customers repaying a debt, however we welcome suppliers’ discussions with the Department of Work and Pensions to better understand Fuel Direct.

Lastly, there has been a significant increase (146%, 188,422 customers) in the number of Priority Service Register customers and customers in debt receiving energy efficiency information in 2010. This is good news as these customers 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.

³Eligible householders can choose a selection of free services from their gas and electricity supplier to help with their fuel bills – be it free meter reading or gas safety checks.
⁴A 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.

Retail market review: next steps

In November 2010 we announced the Retail Market Review⁵ - an investigation into the markets for electricity and gas for households and small businesses in Great Britain. In March 2011 we published our findings and initial proposals.



We received nearly 70 formal responses to our proposals and over 40 detailed emails and phone calls from consumers. We have also held bilateral meetings with the six major energy suppliers and a number of consumer organisations and small suppliers.

Many stakeholders broadly agree with our findings, relating to causes of persistent consumer harm and barriers to entry in energy retail markets, and support our interpretation of the evidence. However, we have also received responses that highlight areas of contention. At present, our view on the fundamental findings of our review remains unchanged. We continue to study these responses and we will look to acknowledge alternative perspectives where we see fit.

In terms of our proposals, we received broad support for the principles behind our proposed interventions. For example, many stakeholders agree that our proposals should improve the quality of information available to consumers, particularly in terms of improving tariff comparability and the information available on bills and annual statements. We have also received support for a number of proposals in the non-domestic sector, particularly those surrounding the appropriate oversight of third party intermediaries. A number of responses, particularly those from large and some small suppliers have expressed reservations with some of the elements of our tariff comparability proposal and have put

forward proposals of their own. We will be looking closely at the nature and details of these concerns.

We have also received a number of responses from consumer groups and suppliers on our open question on whether additional consumer protections measures are necessary to protect the interests of vulnerable consumers. While some responses from consumer groups called for us to consider greater protections, such as specific tariffs for vulnerable consumers, responses from the large suppliers pointed to existing consumer protections and self-regulatory protections as being sufficient. At least one respondent highlighted the importance that social policy should play in the protection of vulnerable consumers.

We are at the beginning of the review process and will be taking a number of options through further rounds of consumer research and stakeholder discussions and will carry out a separate impact assessment on each of the options. Towards the end of this year, we will publish the results of this additional work including our draft impact assessments. We will also publish a detailed consultation on a range of options for consideration. In 2012 we will publish proposals to put in place the reforms. The six major suppliers can then decide whether to accept our proposals or appeal some or all of the reforms to the Competition Commission.

Update: 30 days notice

Earlier this year we made amendments to supply licence condition 23 to require domestic suppliers to notify their customers of a unilateral variation to their contractual terms which increase prices or which are to their 'significant disadvantage' at least 30 days in advance. Previously suppliers could notify customers up to 65 days after the change.

30 days notice came into effect on 28 April 2011 following consultation with relevant stakeholders. During the course of the consultations we received requests from a number of stakeholders to provide clarity on what constitutes a price increase, and what is meant by a contract variation which is to the 'significant disadvantage' of the customer. On 31 May we issued draft guidance for this purpose. In our view a supplier should notify their customer 30 days in advance of an increase in any of the following charges:

- standing charges
- unit charges
- late payment charges
- termination fees
- administrative charges for paying supply charges by credit cards
- charges made by a supplier in respect of disconnections and re-connections
- charges for paper billing/copies of bills
- charges made by a supplier for testing, moving or replacing a meter
- charges made by a supplier for hiring/renting a meter
- changes to a discount scheme, such as a reduction in the prompt pay discount
- in respect of prepayment meter customers, charges for replacing a prepayment meter card

Update: 30 days notice continued overleaf

⁵<http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx>

Update: 30 days notice continued

- call out charges made by a supplier for metering related issues. In our view a supplier should notify their customer 30 days in advance of any changes to contractual terms which may leave the domestic customer 'significant disadvantage'. **We gave the following examples:**

Illustrative and non-exhaustive categories	Illustrative and non-exhaustive examples
Changes to the services provided or the quality of service level	Changes which reduce the availability of payment methods and paper billing. Changes to reward or voucher schemes linked to the contract
Changes to the duration of the contract and any conditions for renewal of the contract	Inserting or changing terms which allow a supplier to renew the contract for a further fixed term period. An increase in the fixed term period. Changing terms which apply to any process for opting out of contract renewals.
Changes to conditions for termination of the contract	Any increase in the notice period for termination. Any decrease in a time period in which a customer must respond to the supplier. Putting in place additional requirements which must be satisfied by a customer.
Changes to charges for early termination of the contract	Changes which extend the circumstances where cancellation/early termination fees will be payable.
Changes to compensation and refund arrangements which apply if any service quality levels specified in the contract are not met, including any arrangements which apply in the event of inaccurate or delayed billing	Any changes which seek to reduce or exclude the supplier's liability.

We invited stakeholders to offer views on our draft guidance along with any additional or alternative examples which should be included in the proposed guidance. We are currently reviewing these responses.

Working for business energy consumers

Ofgem has increased its focus on business consumers. We regularly meet with business consumer representatives through our small /medium user and large users groups (SMUG and LUG) to understand the issues facing business consumers in the energy market, and we recently undertook research⁶ with a range of small and medium businesses across Great Britain to further understand these consumers.

From these, and other, interactions we have seen increasing evidence of a number of issues facing business consumers, showing in many cases they may not be getting the best from the energy market. Particular issues include the clarity of contracts and the way the contract notice periods work, objections to switching supplier, the level of 'deemed' rates, the transparency of brokers operating in this market, and the back-billing of business consumers over a

number of years. We are addressing these issues in a range of ways for example our Retail Market Review is reviewing compliance with current rules on contract terms and notice periods.

We also held a 'roundtable' meeting with suppliers and consumer groups on back-billing to consider some of the causes and to agree the way to tackle this issue.

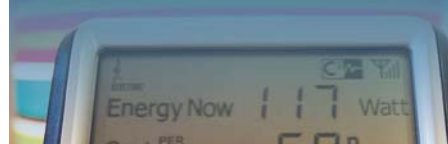
We have produced downloadable factsheets⁷ to provide clear guidance to business consumers on how to switch energy suppliers and on energy supply contracts. We will continue to focus attention on the business market over the coming months to ensure these issues are addressed.



Smarter markets: preparing for change

The roll out of smart metering has the potential to transform how energy markets operate; how consumers engage with them and help consumers to manage their energy use better. In preparing for this process of change we have been working to understand consumer behaviour and considering the support and protections consumers may require.

We recently published a bulletin covering several pieces of our work concerning consumer protection, smart metering and understanding behaviour change. This bulletin can be viewed here <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=28&refer=SUSTAINABILITY/EDRP>



⁶ Research can be found here <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=47&refer=SUSTAINABILITY/CP/CF>

⁷ Switching factsheet can be found here: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=switchingforbusinesscustomersfs.pdf&refer=Media/FactSheets> and one on Energy Contracts here: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=energycontractsforbusinesscustomersfs.pdf&refer=Media/FactSheets>

For further information contact consumer.first@ofgem.gov.uk or see our website: www.ofgem.gov.uk