Promoting choice and value for
all gas and electricity customers

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Dear Colleagues,

Domestic suppliers' quarterly debt and disconnections – Quarter 2 2011

Ofgem collects and monitors data from domestic suppliers on their performance in areas of operation including debt and disconnection and the use of prepayment meters. Effective monitoring of licensees' performance in these key areas is an important part of our work in protecting vulnerable customers. Where our analysis of the data identifies issues of concern with supplier performance, we take action, either through discussion with individual suppliers or by instigating further policy work.

This letter gives a summary of supplier performance during Quarter 2 (April to June) 2011.

In addition to our regular monitoring, we have conducted a review of the data we collect to ensure that it remains fit for purpose and that we are monitoring key developments. We published a consultation letter on our proposed changes on 20 September[1].

Supplier data for April to June (Q2) 2011

Attached to this letter are the data reports collected for Q2 2011. A full analysis of supplier performance will be set out in our annual report for 2011. The key points drawn from the Q2 2011 data are summarised below.

<u>Disconnections</u>
For both fuels, the number of disconnections for debt fell compared with the same quarter in 2010: electricity disconnections decreased by 52% and gas disconnections by 51%.

In previous quarters, we have noted disproportionally high numbers of electricity disconnections by EDF Energy and disproportionally high numbers of gas disconnections by ScottishPower compared with other suppliers. In the annual report we described the action taken to address these issues. In Q2 2011 we are pleased to report that both EDF Energy and ScottishPower have showed significant decreases in disconnections compared with Q2 2010.

In Q2 2011, ScottishPower's gas disconnections decreased by 86% compared with Q2 2010 whilst EDF Energy also saw a significant reduction in their electricity disconnections compared with Q2 2010; by 99% compared with Q2 2010. Of the six major suppliers, British Gas did not disconnect any customers, whilst EON disconnected one customer and

[1] See the Social Obligations Data Review – consultation on proposed changes on the Ofgem website at http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=80&refer=Sustainability/SocAction/Monitoring/SoObMonitor

EDF Energy three customers across both fuels. EDF Energy is continuing its moratorium on electricity disconnections where it is unable to install a PPM for safety reasons.

We have previously reported on the safety issues encountered by suppliers, and particularly EDF Energy, regarding the installation of electricity prepayment meters (PPMs) in communal cupboards and intake rooms. This issue has been the subject of recent discussion at the Energy Retail Association (ERA) debt group meeting and the ERA have drafted a Protocol setting out guiding principles on where it may or may not be deemed safe and practical to install a PPM in such situation.

SSE's electricity and gas disconnections have increased threefold compared to Q2 2010 and they now account for 48% of all gas disconnections and 21% of all electricity disconnections. npower's electricity disconnections have increased by 23% compared with Q2 2010 and represented 41% of all electricity disconnections in Q2 2011. We have also noted an increase in disconnections amongst some of the smaller suppliers, particularly Electricity Plus Supply Ltd.

Whilst the continuing overall fall in disconnections is encouraging, the disconnection rates vary significantly between suppliers. It is important that the decreasing trend in disconnections is supported and maintained by all suppliers, including the smaller suppliers. Disconnection should only be a last resort in extreme circumstances and should not be used as a standard method of debt recovery. We expect suppliers to work proactively with customers prior to disconnection, following a rigorous collections process and working to minimise the number of customers reaching the later stages of the debt follow up process.

Debt levels

The number of electricity customers repaying a debt fell by 6% in Q2 2011 whilst the number of gas customers repaying a debt increased by 2% compared with Q2 2010. The number of customers entering into debt arrangements increased in both fuels; by 7% in electricity and 6% in gas compared to the same period last year. In contrast, the number of PPM customers repaying a debt in Q2 2011 fell by 18% for electricity and by 9% in gas, compared to the same quarter in 2010.

The average debt per electricity customer has fallen slightly compared to the same period last year, from £321 to £318, whilst the average level of debt per gas customer has risen, by £15 to £316 in Q2 2011 although this is a small reduction from Q1 2011.

There has been an increase of 8% in the number of gas customers with debts over £600 compared to Q2 2010 and a corresponding decrease in the number of customers owing lesser amounts. The number of electricity customers owing less than £100 and more than £600 has fallen (by 15% and 11% respectively) but there has been an increase of 17% in those owing £300-£600.

Throughout our work on debt and disconnection we have highlighted the importance of suppliers taking early action to prevent the build up of debt. We remind all suppliers including small suppliers, that we expect them to be proactive, working to identify, and help, those customers who are struggling to pay their energy bills. It is in both customers and suppliers interests to find appropriate sustainable solutions to prevent customers from accruing unmanageable levels of debt.

Debt repayment rates[2]

Average repayment amounts decreased for all customers compared to Q2 2010; particularly for PPM customers. Average PPM repayment amounts across the six main

[2] Since 2007, we have not included small suppliers' repayment rates in our analysis of debt repayment rates because their inclusion potentially distorts the overall picture. The average repayment rates are therefore calculated using only data from the major six energy suppliers.

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suppliers fell by 16% in electricity and 12% in gas, and for credit customers by 7% in electricity and 2% in gas. In particular, there has been a noticeable decrease in Scottish Power's average weekly PPM repayment amounts for both fuels compared with Q2 2010, whilst EDF Energy's average weekly PPM electricity repayment amounts have also fallen significantly.

For PPM customers, the average number of weeks to recover debt has risen significantly: from 69 to 76 weeks for electricity and from 67 to 92 weeks for gas. For credit customers, the average number of weeks to recover debt has remained broadly static across the industry as a whole compared to Q2 2010.

The combination of reduced average repayment amounts and increased average weekly repayment periods for PPM customers is encouraging. We are pleased to see a narrowing in the divergence between PPM and credit weekly repayment rates across nearly all suppliers for both gas and electricity. Nevertheless, it remains the case that, with the exception of E.ON and npower, average repayment rates for PPM customers are higher on average than for credit customers and we remind suppliers that it is essential that they take customer's individual circumstances into account when determining their ability to repay debt.

Suppliers are progressing well in embedding the key Principles for ability to pay and we are encouraged with the development of new initiatives to assist customers in debt. We recently met with the major six suppliers to discuss their work in relation to repayment rates, as well as any arrangements they are planning to assist their low income and vulnerable customers over the winter period. We will highlight these in our next quarterly report.

<u>Prepayment meters</u>

The number of gas and electricity customers paying by PPM has increased compared to the same quarter in 2010, by 6% and 4% respectively.

The percentage of PPM customers repaying a debt has decreased slightly compared with Q2 2010. 9% of electricity PPM customers and 11% of gas PPM customers were repaying a debt in Q2 2011 compared to 11% and 12% respectively in the same quarter in 2010.

<u>Scotland and Wales</u>

The number of electricity customers repaying a debt has decreased in Scotland by 8% and by 11% in Wales, which is a higher rate than the 6% fall seen across Great Britain as a whole, compared to Q2 2010. The number of gas customers repaying a debt has also decreased; by 1% in Scotland and 6% in Wales, contrasting with the 2% increase seen across Great Britain as a whole.

The number of PPM customers in debt in Scotland and Wales has fallen since Q2 2010, particularly in Wales. The number of electricity PPM customers in debt fell by 18% in Scotland and by 21% in Wales, broadly similar to the fall in Great Britain as a whole. In Scotland the number of PPM gas customers in debt has fallen by 5%, whilst in Wales the number of PPM gas customers in debt fell by 45%, compared to a decrease of 9% seen across Great Britain as a whole.

The number of disconnections in Scotland and Wales remains low and has decreased compared with Q2 2010. Four electricity and four gas customers were disconnected in Scotland in Q2 2011, whilst nine electricity and 11 gas customers were disconnected in Wales.

<u>Conclusion</u>

We will continue to monitor suppliers' performance across all the areas covered by this report. It is encouraging to see a continuing focus by suppliers on reducing the number of disconnections and a fall in PPM repayment rates. Nevertheless, it is important that

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suppliers, including small suppliers, work to ensure that these trends are maintained across the whole of the industry.

We are concerned by the increasing number of customers with large debts, particularly in gas. This indicates that there continue to be signs that the recession and high energy bills are having a significant impact on customers. In the current economic climate, increasing pressure on household budgets and rising energy costs, we urge suppliers to do all they can to proactively identify and offer assistance to their customers who are struggling to pay, particularly those who are vulnerable, and help to prevent the build up of debt.

If you have any questions regarding this letter, please contact Helen Harper at helen.harper@ofgem.gov.uk or on 020 7901 3073.

Yours faithfully,

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