



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

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Dear Colleagues,

Domestic suppliers' quarterly debt and disconnections – Quarter 3 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 3 (July to September) 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 September¹.

Supplier data for July to September (Q3) 2011

Attached to this letter are the data reports collected for Q3 2011. A full analysis of supplier performance will be set out in our annual report for 2011. The key points drawn from the Q3 2011 data are summarised below.

Key headlines

- Disconnections have decreased by 39% for electricity and 58% for gas from Q3 2010. There were 419 electricity disconnections and 128 gas disconnections in Q3 2011, compared to, respectively, 685 and 305 in Q3 2010.
- Since Q3 2010, the number of electricity customers in debt has fallen by 8% to 875,401. The number of gas customers in debt has decreased by 3% to 810,419.
- The average level of debt per customer in Q3 2011 was £354 for electricity and £337 for gas.
- Across the six major suppliers, the difference in average weekly credit repayment rates and PPM rates has continued to narrow.

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>

- For electricity, PPM repayment rates are now £0.91 higher than credit repayment rates, compared to £3.07 higher in Q3 2010.
- For gas, PPM repayment rates are now £0.95 higher than credit repayment rates, compared to £2.08 higher in Q3 2010.

Disconnections

Encouragingly, the number of disconnections for debt fell in Q3 2011 for both fuels compared with the same quarter in 2010: electricity disconnections decreased by 39% to 419 and gas disconnections by 58% to 128.

In previous reports, we have noted disproportionately high numbers of electricity disconnections by EDF Energy and gas disconnections by ScottishPower, compared with other suppliers, and the actions taken to address these issues. In Q3 2011, ScottishPower's gas disconnections decreased by 91% to 14 compared with Q3 2010; their electricity disconnections also decreased by 32% to 50. ScottishPower has told us that there has been a reduction in the level of gas disconnections due to their ProFit solution implemented as a pilot in 2010, and which now continues as an enduring project. ProFit allows the installation of prepayment meters at a property where the customer is not present.

EDF Energy is continuing its moratorium on electricity disconnections where it is unable to install a PPM for safety reasons. Of the six major suppliers, British Gas and EDF Energy did not disconnect any customers in Q3 2011.

npower disconnected 202 electricity customers in Q3 2011 - an increase of 62% from Q3 2010. npower's disconnections represented almost half of all electricity and a third of all gas disconnections in Q3 2011. SSE's disconnections have increased for both gas and electricity compared with Q3 2010. The company's 63 gas disconnections now account for nearly half of all gas disconnections. We have also noted an increase in Q3 2011 in disconnections amongst some of the smaller suppliers, notably Electricity and Gas Plus Supply Ltd and Good Energy disconnections. We are exploring the reasons for these increases in disconnections with the respective suppliers.

Whilst we continue to welcome the ongoing fall in overall disconnections, disconnection numbers still vary significantly between 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. We expect all suppliers to follow this approach.

Debt levels

The number of customers repaying a debt fell in Q3 2011 compared to the same period last year; by 8% for electricity and by 3% for gas. 0.9 million electricity customers and 0.8 million gas customers were repaying a debt in Q3 2011. The number of customers entering into debt arrangements also decreased in both fuels; by 17% to 200,017 in electricity and by 11% to 177,802 in gas.

The average debt per customer in Q3 2011 was £354 for electricity and £337 for gas. This increase on previous quarters is largely due to an error in reporting by ScottishPower on this metric, which has had an impact on the overall average level of debt per customer across the industry. We have written to Scottish Power and all suppliers to remind them of the importance of accurate reporting.

There has been an increase in the number of customers with debts over £600 compared to Q3 2010; by 5% for electricity and by 9% for gas, and an increase in the number of customers with debts of £300 - £600; by 38% for electricity and by 22% for gas. There has been a corresponding drop in the number of customers owing less than £100; by 26%

for electricity and by 20% for gas. A third of electricity customers and gas customers now owe more than £300 – this compares with 25% of electricity and 28% of customers in Q3 2010.

Through our work on debt and disconnection we continually stress the importance of suppliers taking early action to prevent the build up of debt. Recent analysis of the data collected under the Social Obligations monitoring has shown that some of the smaller suppliers in particular have a small number of customers with significantly higher than average levels of debt. We expect all suppliers, including the smaller suppliers, to be proactive and work to find appropriate sustainable solutions to prevent customers from accruing unmanageable levels of debt. Going forward, we will be monitoring this area closely and, in particular, working with the smaller suppliers to address these issues.

Debt repayment rates²

In Q3 2011, average repayment amounts increased for credit customers but decreased for PPM customers compared to Q3 2010. Average repayment amounts for credit customers increased by 10% to £5.94 for electricity and by 1% to £5.84 for gas. Average PPM repayment amounts across the six main suppliers fell by 19% to £6.85 in electricity and 14% to £6.79 in gas.

In particular, there has been a noticeable decrease in British Gas', EDF Energy's and Scottish Power's average weekly PPM repayment amounts for both fuels compared with Q3 2010.

ScottishPower has also told us that they are now providing customers who have a PPM fitted on a warrant with an additional 10 days in which to make contact to confirm that they can afford their assigned level of repayment. EDF Energy has made a similar change, setting a standard repayment level of £5 per week and providing the customer with 28 days to discuss whether the rate is appropriate before they attempt to revise it.

For PPM customers, the average number of weeks to recover debt has risen to 83 weeks for electricity and 92 weeks for gas. For credit customers, the average number of weeks to recover debt has increased by two weeks to 50 for both fuels, compared with Q3 2010.

The combination of reduced average repayment amounts and increased average repayment periods for PPM customers is encouraging. The sharp decrease in PPM rates in particular, means that the gap between PPM and credit weekly repayment rates across continues to narrow, as shown in the table below. Average repayment rates for PPM customers of EDF Energy, E.ON and npower are lower on average than for credit customers.

Average repayment rates across the six major suppliers

	Q3 2010	Difference in rates	Q3 2011	Difference in rates
Electricity credit	£5.40	£3.07	£5.94	£0.91
Electricity PPM	£8.47		£6.85	
Gas credit	£5.80	£2.08	£5.84	£0.95
Gas PPM	£7.88		£6.79	

Prepayment meters

The number of gas and electricity customers paying by PPM has increased compared to the same quarter in 2010, by 6% and 3% respectively.

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.

The number of PPM customers repaying a debt has decreased compared with Q3 2010 – by 14% for electricity and by 9% for gas. 351,760 (9%) of electricity PPM customers and 320,323 (11%) of gas PPM customers were repaying a debt in Q3 2011 compared to 10% and 13% respectively in the same quarter in 2010.

Scotland and Wales

The number of electricity customers repaying a debt has decreased in Scotland by 6% to 132,405 but remained static in Wales at just over 44,000, compared to Q3 2010. The number of gas customers repaying a debt has remained static at just under 95,000 in Scotland and decreased by 8% to 45,430 in Wales.

The number of electricity PPM customers in debt fell by 7% to 41,000 in Scotland and by 9% to 14,000 in Wales, lower than the fall of 14% seen across Great Britain as a whole. In Scotland the number of PPM gas customers in debt has fallen by 3% to 32,000, whilst in Wales the number of PPM gas customers in debt fell by 28% to 19,000, compared to a decrease of 9% seen across Great Britain as a whole.

The number of disconnections in Scotland and Wales remains low although there has been a small increase in electricity disconnections in both nations, and an increase in gas disconnections in Wales. This slight increase contrasts to the decreasing trend seen across Great Britain as a whole. In Scotland, 7 electricity customers and 7 gas customers were disconnected in Q3 2011, compared to 4 and 38 respectively in Q3 2010. In Wales, 21 electricity and 16 gas customers were disconnected in Q3 2011, compared to 9 and 12 respectively in Q3 2010.

Winter initiatives

We met with the six major suppliers in October 2011 and discussed the initiatives they had planned to assist customers going into the winter period and which are now underway. We were encouraged to see the wide range of support on offer and have summarised some of these below.

- **British Gas:** The provision of generalised debt advice to their customers across all of their regions is being rolled out. This includes advice about the assistance available under the Warm Home Discount Scheme and Carbon Emission Reduction Target measures.
- **EDF Energy:** The number of outlets available as PPM key pick-ups for customers is being increased. EDF Energy is working with the NEA on vulnerable customer issues, and has launched internal campaigns to raise awareness of the PSR, fuel poverty and gas safety.
- **E.ON:** All of their PPM customers are being contacted to encourage them to top up their meters in anticipation of colder months. E.ON is carrying out a mailing campaign highlighting how to plan for winter, based on information from winter 20120 where vulnerable customers resorted to using emergency credit.
- **npower:** Letters are being sent to PPM customers who had not vended over the summer period, particularly gas PPM customers, and a reminder for electricity PPM customers at Post Offices to top up their meters. npower is providing 95% coverage within two hours for sending keys to vend points for customers with electricity PPMs.
- **ScottishPower:** A 'Promise Tracker' system has been introduced where a 'Promise Keeper' designated by ScottishPower would monitor a particular group of customers. Community Liaison Officers will also be on standby to provide face-to-face assistance if needed, for example assisting customers with the topping-up of PPMs and providing them with alternative means of heating.

- **SSE:** Their 'Making Life Easier' campaign runs from 1 November through to February, aimed at raising awareness amongst staff of helping customers throughout the winter months. SSE has been working with the Post Offices and PayPoints to improve the delivery of cards for PPMs.

Conclusion

We are encouraged that disconnections have continued to fall across the industry and that suppliers are maintaining their focus on minimising the number of disconnections. However, it is important that all suppliers work to ensure that these trends are maintained across the whole of the industry.

We are particularly encouraged by the range of initiatives that suppliers have put in place to assist their customers, particularly those who are vulnerable, over the winter period. This is important given the increase in the number of customers owing higher amounts.

We will continue to monitor suppliers' performance across all the areas covered by this report. We expect all suppliers, including the smaller suppliers, to work proactively to help their customers, particularly those who are vulnerable. Going forward, we will continue to monitor performance closely and, in particular, will be engaging fully with the smaller suppliers on these matters in 2012.

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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