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

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Date: 11 April 2012

Dear Mr Slade

### **Electricity top-up PPM fraud**

In January 2011 we wrote to you on the issue of electricity top-up prepayment meter (PPM) fraud. We expressed our concerns about the potential impact of this activity on consumers, for example, many would be asked to pay twice for the electricity consumed. We also expressed concern that the industry processes had not been sufficiently robust to detect this fraud and prevent it from taking place in a timely way. However, we noted the swift action that suppliers had taken and welcomed three public commitments that your members had made to address this issue. These commitments are set out in the annex to this letter.

This remains a serious issue that has affected over 150,000 customers to date. Information provided to us by Energy UK indicates that, during 2011, consumers used illegal top-up keys on 88,300 occasions and may, therefore, have handed over £2.2m to criminals for electricity that they will then be charged for by electricity suppliers. It has also cost the industry tens of millions of pounds in developing technological solutions and in communicating the key messages to consumers to deter this activity. These costs may have led to higher bills for consumers. However, we note that, linked to the efforts of your members, there has been a significant reduction in the numbers of new cases identified over recent months.

In July 2011 you provided Ofgem with a progress report on ERA suppliers' adherence to their commitments and provided an updated report in October 2011. We have reviewed these reports and have continued to meet with your colleagues to monitor progress. We recognise the significant efforts that your members have made to address the issue and help protect the interests of consumers. These efforts include:

- Direct communications with all PPM customers, targeted media campaigns in areas of significant top-up fraud, placing of messages on top-up till receipts and posters at PPM top-up outlets.
- Working with meter manufacturers to develop PPM meters that permanently disable the fraudulent top-up keys. These meters are now being used when PPM meters need to be replaced and have also been deployed in a more targeted manner in areas of significant top-up PPM fraud.
- Operating arrangements to understand the circumstances of individual cases of PPM fraud and treating customers appropriately, for example by offering repayment plans to customers that would have difficulty paying these charges.
- Energy UK appointing a project team and project manager as well as establishing the Energy UK Fraud Group to progress the issues, and

- Commissioning an independent assessment from KPMG and agreeing to implement these findings.<sup>1</sup>

You have also now provided us, on behalf of each of your member companies, with their agreement to continue to meet the three commitments set out in the annex to this letter. We are writing to you now to accept those commitments and your proposal to submit a further report to us on the progress of your member companies against their commitments within six-months. We consider that this is an area where suppliers must remain vigilant given the potential impacts on consumers.

As we set out in our January 2011 letter, electricity suppliers are required to take all reasonable steps to detect and prevent the illegal abstraction of electricity and interference with meters.<sup>2</sup> In the context of the continued efforts by suppliers to address this issue we do not intend to pursue enforcement action at this stage. However, if circumstances change, including if we receive any complaints raising substantive issues or these commitments are not met, we will consider what actions we should take using the criteria set out in our Enforcement Guidelines.<sup>3</sup>

Yours sincerely

**Andrew Wright**  
**Senior Partner, Markets**

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<sup>1</sup> This report related to the security and investigative issues surrounding PPM fraud and suppliers' response.

<sup>2</sup> We consider that Ofgem has the ability to investigate a potential breach of SLC 12.1 of the electricity supply licence. We have also considered the potential use of our powers under Part 8 of the Enterprise Act 2002 in relation to any potential breaches of section 13 of The Supply of Goods and Services Act 1982 and The Consumer Protection from Unfair Trading Regulations 2008.

<sup>3</sup><http://www.ofgem.gov.uk/ABOUT%20US/ENFORCEMENT/Documents1/Enforcement%20Guidelines%20post%20consultation.pdf>

## **Annex 1: Energy UK supplier commitments on electricity PPM Fraud**

**Commitment 1:** To take reasonable steps, via a variety of methods to ensure that all PPM customers are provided with appropriate information on the PPM fraud issue. This should include as a minimum, how customers can top-up meters safely, that the consequence of accepting an illegal top-up is that they will be asked to pay twice for the energy illegally consumed and who they should contact to discuss the issue if they have concerns. We note the efforts that suppliers have made to reach customers across a range of media and we welcome your commitment to sustain this communications campaign to ensure that this important message continues to reach customers, including new PPM customers, until the issue has been fully resolved.

**Commitment 2:** To treat each customer on an individual basis and respond to his/her specific circumstances.

**Commitment 3:** To take all reasonable steps to identify and implement a proportionate technical response to prevent the fraud from continuing to take place and from spreading to new customers or areas. Technical solutions will be implemented as quickly and robustly as possible.