



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

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Dear Colleagues

### **Domestic suppliers' quarterly social obligations data – Quarters 1 and 2 2012**

Ofgem collects and monitors a range of social obligations data from domestic suppliers on their performance in managing consumer debt, disconnection and the use of Prepayment Meters (PPMs). Effective monitoring of licensees' performance in these areas is an important part of our work to protect vulnerable consumers. Where our analysis of the data identifies issues of concern with supplier performance, we take action, either through discussion with individual suppliers or investigating and undertaking enforcement action.

This letter summarises supplier performance between 1 January to 31 March 2012 (quarter 1 (Q1)) and 1 April to 30 June 2012 (quarter 2 (Q2)). Also attached are the data reports collected for these periods.

### **Disconnections**

Table 1 shows the number of electricity and gas disconnections carried out by suppliers in Q1 and Q2 2012 compared to the same quarters in 2011.

**Table 1: Electricity and gas disconnections in Q1 and Q2 2011 and 2012**

	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q1 2012</b>	<b>Q2 2012</b>
<b>Electricity</b>	44	375	13	138
<b>Gas</b>	20	146	2	33

Electricity and gas disconnections continue to show a seasonal pattern. Suppliers are required by their licences to avoid disconnecting consumers in winter who are of pensionable age, disabled or chronically sick. This is known as the winter moratorium<sup>1</sup>. In addition the six main suppliers have committed through their self regulatory 'Safety Net' not to disconnect any consumer where they are in a vulnerable position for reasons of age, health, disability or severe financial insecurity. Disconnections, as a last resort, usually resume in the spring and summer, hence the increases between Q1 and Q2.

The number of disconnections carried out in Q1 and Q2 2012 are lower than the corresponding quarters in 2011; for example 63% fewer electricity and 77% fewer gas disconnections were carried out in Q2 2012 compared to Q2 2011. This suggests that the trend of falling disconnection rates observed since 2007 is continuing.

We welcome the continuing reduction in disconnections and encourage suppliers to continue to protect vulnerable consumers from disconnection and only ever disconnect

<sup>1</sup> The winter moratorium runs from 1 October to 31 March

where it is an absolute last resort. However, we are concerned by the disconnection rates of some small suppliers. In Q1 and Q2 2012, several small suppliers accounted for 73% and 45% of total electricity and gas disconnections respectively. This is much higher than the corresponding percentages of 14% and 18% for Q1 and Q2 2011 respectively.

We will meet with small suppliers over the coming months to understand this issue and ensure suppliers are considering all alternative approaches to avoid disconnection. We expect all suppliers to only disconnect consumers as an absolute last resort.

### **Debt levels of consumers on a repayment plan and repayment rates<sup>2</sup>**

The average level of electricity and gas debt of consumers on a repayment plan in Q2 2012 was £354 and £377 respectively; this is largely unchanged from Q1 2012. In comparison to Q2 2011, average electricity debt is unchanged and average gas debt increased by 11%.

We are concerned by the level and variability of the average debt owed to some small suppliers. For example, small suppliers accounted for the five highest average electricity debts in Q2 2012. This is an issue we will address in our meetings with these suppliers to understand better the causes of their high average debt level.

We have reminded suppliers of their obligations to take into account a consumer's ability to pay when setting debt repayment rates and to lower PPM repayment rates. We are encouraged that both electricity and gas PPM repayment rates declined in Q1 and Q2 this year. In Q2 2012, the average weekly PPM repayment rates for electricity and gas were £6.11 and £5.89 respectively; a fall of 7% for electricity and 8% for gas compared to the same quarter in 2011. There was a similar fall in PPM repayment rates in Q1 2012 compared to Q1 2011.

We note that credit meter repayment rates increased in both Q1 and Q2 2012 compared to the same quarters in 2011. For example, electricity credit meter repayment rates increased by 10% to £6.46 and for gas by 12% to £6.81 in Q2 2012 compared to Q2 2011. This means that credit meter repayment rates are now higher than PPM repayment rates.

While we welcome the fall in PPM repayment rates, suppliers need to continue to take into account each credit consumer's ability to repay debt too. A number of reasons may account for the increase in credit meter repayment rates; however we will monitor this area closely over the coming months to ensure this does not become a rising trend.

### **Prepayment meters (PPM)**

The number of PPM consumers increased in both quarters to around 4.2 million electricity consumers and 3 million gas consumers. This represents a 4% increase in electricity PPMs and a 7% increase in gas PPMs in Q2 2012 compared to Q2 2011.

In Q2 2012, 305,990 electricity PPM consumers were repaying a debt; 16% lower than Q2 2011. Also in Q2 2012, 331,608 gas PPM consumers were repaying a debt; this was 6% higher than Q1 2012 and 7% higher than Q2 2011.

### **The nations**

The number of consumers repaying energy debts fell in England and Scotland. In Scotland, the number of consumers repaying an electricity debt decreased by 4% to 127,946 in Q1 2012 compared to Q1 2011. While the number of consumers in Scotland repaying an electricity debt increased to 137,372 in Q2 2012, this is still below the comparable figure of

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<sup>2</sup> 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.

141,543 in Q2 2011. The number of gas consumers repaying an energy debt in Scotland was largely unchanged at around 104,000 in Q2 2011 and 2012<sup>3</sup>.

The number of consumers repaying an energy debt in England fell by 6% from 737,967 in Q2 2011 to 692,567 in Q2 2012. The number of gas consumers repaying an energy debt fell by 3% from 719,319 in Q2 2011 to 700,751 in Q2 2012.

The number of electricity consumers repaying a debt in Wales was 47,798 in Q2 2012; this is a 14% increase compared to Q2 2011 and 12% compared to Q1 2012. The number of gas consumers repaying a debt in Q2 2012 was 46,778; this is 17% higher than Q2 2011 and 26% higher than Q1 2012.

We highlighted an increase in the number of consumers repaying energy debts in Wales in our Social Obligations Annual Report 2011<sup>4</sup>. One of the reasons for this increase is Scottish and Southern Energy (SSE), an incumbent energy supplier in Wales, increasing activity to identify and contact indebted consumers. We have discussed this issue with SSE and been given an assurance it is the result of SSE improving their contact with indebted consumers.

All suppliers must understand the debt situation of their consumers and take appropriate action make sure they are accurately capturing this information. In this respect, we understand the need for SSE to review their consumer base. However, we will keep the level of consumers repaying energy debts in Wales under review in forthcoming reports and take follow up action as necessary.

One gas disconnection was carried out in Scotland in Q2 2012. This is a significant reduction compared to Q2 2011 when four electricity and four gas consumers were disconnected. In Wales, one gas and four electricity consumers were disconnected in Q2 2012; this is lower than Q2 2011 when nine electricity and eleven gas consumers were disconnected.

### **Future publication arrangements**

Until now, we have published quarterly summaries of suppliers' social obligations data, with both detailed figures and our analysis of it. We are collecting an expanded range of data from Quarter 3 2012, so have reviewed the current publication arrangements and propose to make some changes to ensure that clear and informative statistics are provided in a timely manner. Key debt and disconnection data will still be published on a quarterly basis, but with greater use of graphical and tabular presentation rather than written reporting. We will provide a more in depth mid-year summary of the data including commentary identifying key trends for the first two quarters of the year. These new reporting arrangements will allow punctual publication of suppliers' social obligations after the data has been submitted. The annual report will remain unchanged from its current format.

If you have any questions regarding this letter, please contact Rebecca Langford at [rebecca.langford@ofgem.gov.uk](mailto:rebecca.langford@ofgem.gov.uk) or on 020 7901 7388.

Yours faithfully,



**Philip Cullum**  
**Partner, Consumer Policy and Demand Side Insight**

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<sup>3</sup> In both Q1 2011 and Q1 2012 around 91,000 consumers in Scotland were repaying a gas debt

<sup>4</sup> A copy of this report can be found on the Ofgem website: <http://www.ofgem.gov.uk>