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Interested parties

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Domestic suppliers' quarterly social obligations data – Quarters 1 and 2 2013

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 (PPM). Monitoring licensees' performance in these areas is an important part of our work to protect vulnerable consumers.[1] Where our analysis of the data identifies issues of concern with supplier performance, we take action, either in discussion with individual suppliers or through enforcement action.

This letter summarises supplier performance between 1 January to 31 March 2013 (Q1 2013) and 1 April to 30 June 2013 (Q2 2013).

In 2012, we changed reporting requirements so that the data provided by suppliers tells us more about the position of people in debt. This means that for some of the data in this report there are no comparable numbers from previous years. Any changes in the data identified since the latter half of 2012 may simply reflect seasonal factors rather than indicating anything more meaningful. We flag this at appropriate points throughout this short report. It is also worth noting that the numbers reported here are for customer accounts, not households, and equate to lower numbers for households since some households will be in debt on separate gas and electricity accounts.

Summary

During Q1 and Q2 2013 we have seen increases in a number of indicators, including the number of accounts in debt, the average level of debt and a number of PPM accounts with a customer repaying debt. These increases in part reflect expected seasonal variations. While disconnections increased in the period compared to 2012, overall numbers remained low.

- At the end of Q2 2013, 1.6 million domestic electricity accounts (5.8 per cent) and 1.5 million domestic gas accounts (6.5 per cent) were in debt.
- In Q2 2013, average levels of electricity and gas debt outstanding were £316 and £341 respectively, up four per cent and nine per cent from the end of 2012.
- At the end of Q2 2013 there were 350,383 electricity PPM accounts with a customer repaying debt and 333,413 gas PPM accounts with a customer repaying debt. This is 15 per cent more and 0.5 per cent more respectively than at the end of Q2 2012.
- In Q2 2013 average repayment rates for non-PPM electricity and gas customers were £6.63 per week and £7.66 per week; this is a six per cent more and 11 per cent more than in Q2 2012. Repayment rates for PPM customers remained similar to those seen in the first two quarters of 2012.

[1] Ofgem (2013), "Consumer Vulnerability Strategy", https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf

- During Q1 and Q2 2013, 234 electricity and 38 gas disconnections were carried out in GB. This is 55 per cent and nine per cent more respectively than in Q1-Q2 2012.

Since the publication of the 2012 Social Obligations Annual Report in November 2013[2], we have acted to drive further improvements in suppliers' debt management practices. We increased our monitoring of disconnections to ensure that suppliers are only disconnecting as a last resort and we hosted a debt management workshop to share best practice with smaller suppliers. We are currently working with the advice sector and suppliers to develop a consumer energy debt advice guide which will be available later in the year.

Accounts in debt

At the end of Q2 2013, 1.6 million electricity accounts and 1.5 million of gas accounts were in debt. This equated to 5.8 per cent of domestic electricity and 6.5 per cent of domestic gas accounts.

Data on all customers in arrears was not collected before Q3 2012; therefore we do not have this data for Q1 and Q2 2012.[3] For this reason, in this section we use Q4 2012 to provide a degree of comparison, some differences may be explained by seasonal factors.

Table 1 below shows GB accounts in debt. At the end of Q2 2013, 5.8 per cent of domestic electricity accounts in were in debt, up from 5.1 per cent at the end of 2012. Domestic gas accounts in debt constituted 6.5 per cent of all domestic gas accounts, up from 5.4 per cent at the end of 2012. The percentage of Scottish accounts in debt was higher than the GB average with 6.6 per cent of domestic electricity and 7.3 per cent of domestic gas accounts in Scotland in debt at the end of Q2 2013. Wales had lower percentage of customer accounts in debt than GB with 5.6 per cent of domestic electricity and 6.1 per cent of domestic gas accounts in Wales in debt at the end of Q2 2013. Although Scotland had a higher proportion of accounts in debt, Scottish customers were more likely to be repaying their debt than customers in other nations.

Some of the factors that may explain the increase in the number of customer accounts in debt during the first two quarters of 2013 include the long and colder than average winter of 2012-13 and increases to energy prices in autumn 2012.

Table 1: Number of domestic gas and electricity accounts in debt in GB

		Repaying debt	Debt is not being repaid	Total in debt
Q2 2013	**Electricity**	**1,033,605**	**522,363**	**1,555,968**
	% total accounts	*3.8%*	*1.9%*	*5.8%*
	Gas	**1,001,657**	**446,920**	**1,448,577**
	% total accounts	*4.5%*	*2.0%*	*6.5%*
Q1 2013	**Electricity**	**981,863**	**495,902**	**1,477,765**
	% total accounts	*3.7%*	*1.8%*	*5.5%*
	Gas	**885,314**	**407,462**	**1,292,776**
	% total accounts	*4.0%*	*1.8%*	*5.8%*
Q4 2012	**Electricity**	**900,911**	**457,853**	**1,358,764**
	% total accounts	*3.4%*	*1.7%*	*5.1%*
	Gas	**802,469**	**392,384**	**1,194,853**
	% total accounts	*3.6%*	*1.8%*	*5.4%*

It is important that suppliers are proactive and contact customers who are struggling to pay to agree arrangements to repay their debts before the debt becomes unmanageable. We

[2] Ofgem (2013) "Domestic Suppliers' Social Obligations: 2012 Annual Report", www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2012-annual-report
[3] Please see "Domestic Suppliers' Social Obligations: 2012 Annual Report" for further details: www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2012-annual-report

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are currently working with suppliers and the advice sector to develop a debt advice guide for consumers. We hope that this guide to their rights will prompt customers in payment difficulties to contact their supplier to discuss their situation and agree an arrangement.

Average level of debt

In Q2 2013, average levels of electricity and gas debt outstanding at the end of the period were £316 and £341 respectively, up four per cent and nine per cent from the end of 2012.

In July 2012, we changed how we monitor average debt to improve the completeness and consistency of reporting. New metrics of average debt that we collect are:

- 'take-on' debt (debt that customer 'took on' when the repayment arrangement was agreed)
- average 'snapshot' debt (debt outstanding at the end of the reporting period)
- average level of arrears (debt not being repaid).

These metrics are not available for periods before Q3 2012. Because of this, in this section we use Q4 2012 for the purpose of comparison, while recognising that differences may at least in part be explained by seasonal factors.[4]

In Q2 2013, the average level of 'snapshot' electricity and gas debt of consumers on a repayment plan was £316 and £341 respectively. This is a four per cent and nine per cent increase compared to Q4 2012. The average level of debt not being repaid ('arrears') in Q2 2013 for electricity and gas was £450 and £489 respectively. This is an increase of two per cent and ten per cent respectively compared to Q4 2012. As with the number of accounts in debt, we expect that the long and cold 2012-13 winter and price increases that took effect around autumn 2012 will together have contributed to this increase in debt.

In the 2012 annual report, we highlighted that customers of smaller suppliers had higher average levels of 'take-on' debt than customers of the six large suppliers. We were concerned that this indicated that smaller suppliers were taking longer than the six large suppliers to agree arrangements for customers to repay debt.[5] Our analysis shows that the gap in the average 'take-on' debt between the six large suppliers and smaller suppliers narrowed by the end of Q2 2013 compared to Q4 2012. However, we note that customers of smaller suppliers continued to have higher average levels of 'take-on' debt compared to customers of six large suppliers.

We recognised in our 2012 annual report that small suppliers do not have as much experience of managing debt as larger suppliers. Therefore, in January 2014 we held a debt management workshop in conjunction with Money Advice Trust, at which we discussed best practice in agreeing affordable repayment arrangements and avoiding disconnection. As small suppliers' debt management policies develop following this workshop, we expect to see a closing of the gap between the average levels of debt held by the six large suppliers and small suppliers. Where we have concerns regarding the size of average debt, we will discuss these with suppliers individually in the first instance. If we do not see improvement we will look to publish information on individual supplier performance in this area and consider other appropriate regulatory options.

Repayment arrangements

In Q2 2013 average repayment rates agreed for non-PPM electricity and gas customers were £6.63 per week and £7.66 per week; this is a six per cent more

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[4] Please see "Domestic Suppliers' Social Obligations: 2012 Annual Report" for details: www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2012-annual-report

[5] Ofgem (2013) "Domestic Suppliers' Social Obligations: 2012 annual Report", p. 16 www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2012-annual-report

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and 11 per cent more than in Q2 2012. Repayment rates for PPM customers remained similar to those seen in the first two quarters of 2012.

We are encouraged that at the end of Q2 2013, average PPM repayment rates for electricity and gas had fallen below non-PPM repayment rates (£6.47 and £6.88 per week respectively for PPM customers and £6.63 per week and £7.66 per week respectively for other customers). However, we note that this is the result of PPM customer repayment rates remaining similar to the first two quarters of 2012 while the repayment rates for other customers increased. For example, in Q2 2013 repayment rates for non-PPM electricity and gas customers were six per cent and 11 per cent higher compared to Q2 2012.

We are concerned that non-PPM repayment rates appear to be increasing and that some smaller suppliers' average repayment rates remain much higher than the industry average. To allow customers to repay their debt and afford their ongoing consumption it is essential that repayment rates are set according to customers' ability to pay as required by the Standard Licence Condition 27.8 and the 'ability to pay' principles.[6] We reminded suppliers of this in our 2012 annual report and explored best practice at our small supplier debt management workshop in January 2014.

We expect to see improvements to suppliers' processes following the workshop and we will be discussing progress made with individual suppliers over the coming months. If we do not see improvements in supplier processes, we will consider the regulatory options available to us. We intend to use the debt advice guide we are currently developing to ensure customers are aware of their right to an affordable repayment arrangement.

Prepayment Meters (PPM)

At the end of Q2 2013 there were 350,383 electricity PPM accounts with a customer repaying debt and 333,413 gas PPM accounts with a customer repaying debt. This is 15 per cent more and 0.5 per cent more respectively than at the end of Q2 2012.

The number of PPM customer accounts increased in both quarters to around 4.3 million electricity accounts and 3.2 million gas accounts at the end of March 2013. This represents a four per cent increase in electricity PPMs and a six per cent increase in gas PPMs in Q2 2013 compared to Q2 2012. In GB, 8.1 per cent of all electricity PPM customers and 10.4 per cent of all gas PPM customers had their PPMs set to repay a debt. The percentage of Scottish PPM accounts set to repay debt was about the same for electricity (7.9 per cent) but higher for gas (12.5 per cent) compared to GB. Wales had a lower percentage of PPMs set to repay debt compared to GB: 6.8 per cent for electricity and 8.8 per cent for gas.

In our 2012 annual report, we raised concerns regarding the use of 'blanking disks' which can be used as a safety precaution when suppliers fit gas PPMs on warrant visits. These prevent gas from getting into the customer's supply until they are removed by the supplier, and so can in the short term have the same effect as disconnection. We have since discussed the use of blanking disks with suppliers and are encouraged that some have implemented solutions to avoid using them. We expect this best practice to be shared and for others to look to adopt similar processes.

Additionally, we remind suppliers that PPMs should only be installed where this is a safe and practicable payment method for the customer. We are using our bilateral meetings with suppliers to gain a better understanding of suppliers' policies in this area as well as those related to self-disconnection and exchanging PPMs for credit meters. We understand Citizens Advice is currently undertaking a project looking at self-disconnection and we will consider the findings and recommendations of that project when it is complete.

[6] Annex one: https://www.ofgem.gov.uk/publications-and-updates/review-suppliers%E2%80%99-approaches-debt-management-and-prevention

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Disconnections for debt

During Q1 and Q2 2013, 234 electricity and 38 gas disconnections were carried out in GB. This is 55 per cent and nine per cent more respectively than in Q1-Q2 2012.

Suppliers are required by their licences to avoid disconnecting consumers who are of pensionable age, disabled or chronically sick in the winter months.[7] In addition, the six main suppliers have committed through their self-regulatory 'Safety Net' not to disconnect any consumer in a vulnerable position at any time of the year.[8] As part of our January 2014 small supplier debt management workshop we encouraged smaller suppliers to adopt the principles of the safety net into their debt management processes. We will use our bilateral meetings in 2014 to assess individual supplier progress in this area.

While disconnections increased in Q1 and Q2 2013 compared to the same period in 2012, particularly in electricity, overall numbers remained low. Table 2 shows that during Q1 and Q2 2013, 234 electricity and 38 gas disconnections were carried out in GB. This is 55 per cent and nine per cent more respectively than in Q1 and Q2 2012.

Table 2: Electricity and gas disconnections for debt in Q1 and Q2 2012 and 2013

	Q1 2012	Q2 2012	Q1 2013	Q2 2013	Total Q1 and Q2 2012	Total Q1 and Q2 2013	% Change 2013 vs 2012
Electricity	13	138	71	163	151	234	55%
Gas	2	33	9	29	35	38	9%

In Q1 and Q2 2013, the vast majority (225) of electricity disconnections were carried out in England; five disconnections were carried out in Scotland and four disconnections were carried out in Wales. For gas, 35 disconnections were carried out in England; two were carried out in Scotland; and one was carried out in Wales.

In our 2012 annual report, we reminded suppliers that disconnection should only be used as a last resort and that we expect them to actively seek out alternative solutions wherever possible. To monitor this, we asked them to explain the reason for each disconnection in 2013. In most cases disconnections had occurred where it was not possible to agree a debt repayment arrangement with the customer and it was not safe or practicable to fit a PPM. We will continue to monitor suppliers' compliance with our rules in this area.

If you have any questions regarding this letter, please contact Svitlana Voronkova at Svitlana.Voronkova@ofgem.gov.uk or on 020 3263 9716.

Yours faithfully,

Philip Cullum
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[7] Standard Licence Condition 27.10-27.11. Winter months are October – March.
[8] Energy UK (2013), "The Energy UK Safety Net. Protecting Vulnerable Customers from Disconnection", http://www.energy-uk.org.uk/publication/finish/30-disconnection/308-era-safety-net.