



House of Commons
Trade and Industry Committee

**Debt and
Disconnection: Gas and
electricity supply
companies and their
domestic customers**

Fifth Report of Session 2004–05



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Report, together with formal minutes

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The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

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Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated in the form 'Appendix' followed by the Appendix number.

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1 Introduction

1. In the autumn of 2003, there was an outcry when Mr and Mrs Bates, a pensioner couple, were found dead in their home after their heating supply had been disconnected for non-payment of a bill. It became apparent that the couple had become too frail and confused to cope with things like bill payments, but none of the organisations that might have helped them had been alerted to their problems. One of the issues raised in the media was whether gas and electricity companies should continue to have powers to disconnect customers for non-payment of bills, or whether there should be a ban on such fuel disconnections as there is in relation to water supply. On several occasions during the consideration of the Energy Bill [*Lords*] in 2004 Members of Parliament and Peers tabled amendments to the Bill to restrict the right of gas and electricity companies to disconnect the fuel supplies of vulnerable customers.¹ Government Ministers opposed these amendments, which were withdrawn. The Energy Act 2004 contains no ban on disconnections.

2. On 8 June 2004, we announced that we intended to conduct a short inquiry into the incidence of fuel disconnections, and the measures taken by the regulator of the gas and electricity industries, Ofgem, and the fuel suppliers to protect the most vulnerable customers. We took oral evidence from the Energy Retail Association (the industry body representing gas and electricity supply companies), Energywatch (the consumer watchdog for the industry), the charities Help the Aged and National Energy Action, and Ofgem. In addition, we received written submissions from a group of academics, Age Concern, Energy Action Scotland, the Parliamentary Warm Homes Group and individual members of the National Assembly for Wales, the Public Utilities Access Forum, Unison, the companies British Gas, EDF Energy and Powergen, and the National Consumer Council. We are grateful to our witnesses and to all those who submitted written evidence.

¹ Official Report of the Grand Committee on the Energy Bill, HL, 2 March 2004, cols 230-234; HL Deb, 1 Apr 2004, cols 1505-1510; Stg Co Deb, Standing Committee B, Energy Bill [*Lords*], 22 June 2004, cols 526-529; HC Deb, 13 July 2004, cols 1344-1351

2 Background

Industry initiatives and the work of Ofgem

3. In addition to its general principal responsibility to protect the interests of consumers, the regulator of the gas and electricity industries, Ofgem, has been given specific duties to take account of the interests of consumers who are disabled or chronically sick, those of pensionable age, or on low incomes, and those living in rural areas.² Ofgem's strategy for protecting these customers is set out in its Social Action Plan. Under the Plan, it reports regularly on progress in dealing with fuel poverty;³ publicises the energy efficiency, debt counselling and other customer-support schemes undertaken by the various energy supply companies; promotes best practice; and, to a certain extent, seeks to shame the less active companies into making more effort to meet their social obligations.

4. In September 2002, Ofgem and Energywatch, the consumer protection body, jointly produced good practice guidelines on *Preventing debt and disconnection*.⁴ Ofgem and Energywatch identified six key areas where the energy supply companies needed to make "greater efforts": minimising billing errors; using incoming calls from customers to identify those who would benefit from energy efficiency advice or other help; using customer records on consumption and payment patterns to target energy efficiency advice and measures; adopting more flexible responses to debt recovery; working with other agencies to help customers with multiple debts; and helping consumers who were unable to manage their affairs. We return to these issues later in our Report.

5. Following the deaths of the pensioners, and during the passage of the Energy Bill, the Chairman of Ofgem issued a challenge to the energy industry to do more to identify vulnerable customers and to help prevent disconnection of their fuel supply. Following discussions with its members,⁵ the electricity and gas supply companies, the Energy Retail Association ("ERA") responded by producing a consultation paper entitled *A strategy to define and prevent the disconnection of vulnerable customers*, which was published by Ofgem on 26 April 2004.⁶ The ERA's paper concentrated on the problems of identifying, and then dealing with, vulnerable consumers. In essence, the paper:

- attempted to deal with the confusion arising from the fact that different energy companies and other organisations had used differing definitions of 'vulnerable customer' by providing a clear definition that all suppliers could use;
- offered a model safety net procedure for dealing with such vulnerable customers; and

²Under the Gas Act 1986 and Electricity Act 1989, as amended by the Utilities Act 2000

³For example, by means of its quarterly report 'Monitoring company performance', and its quarterly Social Action Plan newsletter: see www.ofgem.gov.uk/ofgem/work/index/areasofwork/socialactionplan

⁴See www.ofgem.gov.uk/ofgem/whats-new/archive. There is no Ofgem Paper number, but the guidelines were published on 11 September 2002

⁵The six main energy suppliers operating in the UK domestic market: British Gas, EDF Energy, Powergen, RWE npower, Scottish and Southern Energy and ScottishPower

⁶Available at www.ofgem.gov.uk/ofgem/whats-new/archive as Ofgem paper no. 88/04, and hereafter referred to as "Consultation document"

- provided guidance from the Information Commissioner on the circumstances under which suppliers can legally disclose personal information about vulnerable customers (with or without the customers' consent) to Social Services and/or charities.

No new proposals were made about how companies might prevent customers from getting into debt in the first place; and the ERA stated that while “[e]nergy suppliers avoid disconnection where there are alternative arrangements to recover debt... they wish to retain the right to disconnect customers who won’t pay”.⁷

6. The deadline for responses to the ERA’s consultation paper was 4 June 2004. We took oral evidence on the problem of fuel disconnections on 22 June. As a result of the responses to the consultation paper and of comments made to and by us during the course of the oral evidence session, on 10 September 2004 the ERA issued a second paper, *Protecting vulnerable customers from disconnection*.⁸ Our Report is based not only on the oral and written evidence we received but also on the two papers issued by the ERA.

⁷Consultation document, p1

⁸Published at www.energy-retail.org.uk and hereafter referred to as ‘September Paper’

3 Defining the problem

The scale of the problem

7. In 2003 15,973 gas customers and 1,361 electricity customers were disconnected for non-payment of debt. The number of such disconnections has fallen significantly from the peak in the mid 1980s: in 1987 more than 60,000 gas customers and over 100,000 electricity customers were disconnected. Since then, the general trend has been downwards, although gas disconnections have for some years outnumbered those for electricity, despite the fact that there are more electricity than gas customers. Gas disconnections have fluctuated markedly between a minimum of 8,826 and a maximum of 29,771, but have mostly hovered around 16,000.⁹

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gas	15,707	16,068	16,308	14,511	8,826	29,771	29,500	22,177	16,500	26,088	21,780	15,973
Electricity	18,018	3,700	1,200	838	477	460	400	373	300	375	995	1,361

Source: Ofgem's Social Action Plan Report, Quarter 3, 2004, p9

8. There was general agreement among our witnesses about the reasons for the long-term trends. The principal cause of the overall decline has been the move to fit pre-payment meters ("PPMs") in the homes of customers who are incurring increasing debts. We were told that the main reason for the continuing high rate of gas, as compared with electricity, disconnections was that it was more difficult to fit PPMs for gas supplies than for electricity supplies. The installation of an electricity PPM is a comparatively quick and easy operation, basically comprising the substitution of one meter for another; when a gas PPM is installed, the gas supply is disrupted and, for safety reasons, all gas appliances in the household have to be checked (a "purge and relight"). This means that gas PPMs can be connected only by qualified gas engineers and in the presence of and with the co-operation of the customer, who has to allow access to the household.¹⁰ We discuss the use of PPMs further below.¹¹

9. The decline in disconnections has been assisted, according to the ERA, by the development of more sophisticated types of PPM, and by the introduction of various methods of payment as an alternative to the traditional quarterly bills in arrears.¹² The ERA also argued that energy retailers had become better at identifying vulnerable people who needed help, and accordingly resorted to disconnection less frequently.¹³ There was some support for this assertion from other witnesses: Energywatch noted that, since it and Ofgem had published joint guidelines on debt and disconnection in 2002, the number of disconnections had declined although the number of people in debt and the amount of indebtedness had barely changed.¹⁴ However, most of our witnesses thought that there

⁹App 13, para 2.1 and Ofgem report: Monitoring company performance: Quarter 3 2004 (Social Action Plan), 266/04, dated 29 November 2004, to be found at www.ofgem.gov.uk/ofgem/whats-new/archive. Ofgem's report is referred to from now on as 'Social Action Plan Report, Quarter 3, 2004'

¹⁰Q 37 (British Gas)

¹¹Paragraphs 33-36

¹²Q 36

¹³Q 35

¹⁴Q 11

were still widespread and serious failings in the way energy supply companies identified and then dealt with customers who fell into debt.

The identity of those disconnected

10. In 2004 Energywatch commissioned research on the type of customers who were disconnected by their fuel supplier for debt. Using data provided by the energy suppliers on the postcodes of customers disconnected in 2002 and 2003, and applying to it computer software called Mosaic, Energywatch's consultants concluded that almost one-third of gas customers disconnected in this period lived in areas of multiple deprivation and that people from poorer areas were disproportionately likely to be disconnected for debt.¹⁵ Energywatch later explained that the information it had originally requested from the suppliers, for district level postcodes only (for example, SW1 or BH12), was not sufficiently detailed to allow a proper geographical mapping of disconnection, so the Mosaic analysis had been based on the information provided by British Gas and Atlantic, which had been supplied at a greater level of detail.¹⁶

11. Using this research and a study of 48 families carried out by the Policy Studies Institute in 1993 on the reasons why gas customers became indebted, Energywatch suggested that these customers had usually experienced a sudden drop in income caused by job loss, family break up or illness. Energywatch argued that such customers needed support during this difficult period, not to have their energy supply disconnected: "The evidence all shows that the vast majority of consumers do pay and want to pay their bills."¹⁷

12. Energywatch's portrayal of those disconnected chimed with the experiences of charities engaged with disadvantaged groups. National Energy Action thought that "the people who are actually disconnected are people who cannot pay. Everybody else takes it [running up fuel debt] up to the wire, but as far as we are able to assess, people who actually are then disconnected cannot pay."¹⁸ Despite the highly publicised Bates case, both National Energy Action and Help the Aged suggested that families with children and the under-60s generally were much more likely than pensioners to be affected by fuel debt and, as a result, disconnection. We were told that although the incomes of older people were often low, they were stable, and crises such as family break up were less common; pensioners were far more likely to reduce their energy consumption below the level needed to keep them warm and healthy ("self-disconnection") than to incur debt to their gas or electricity supplier. Where they did get into debt, this tended to be not because they could not afford to pay their bills but because they were unable to do so due to declining health or an inability to cope with running their own affairs.¹⁹

13. The energy companies accepted that many of their indebted customers were, for a variety of reasons, genuinely unable to pay their bills, but they continued to argue that many were able to pay but refused to. The ERA stated that the vast majority of customers

15Qq 2-3 and App 9, section 1.3 and Annex 1 (on the methodology of the analysis)

16App 10

17Q 15

18Q 100

19Q 101 (Help the Aged); App 1, paras 1.2-1.3 (Age Concern)

who had been disconnected paid their bills within 24 hours of disconnection and were reconnected.²⁰ The quarterly statistics published by Ofgem do not support the suggestion that the “vast majority” of customers are reconnected within 24 hours: the figures vary widely from company to company, but, for the January-March 2004 period,²¹ the average (mean) period of disconnection for electricity customers reconnected during the quarter was seven days; for gas customers the mean period of disconnection was just over 26 days.²²

14. We do not believe that the statistical information is as yet either comprehensive or detailed enough to state that a specific percentage of those disconnected fall into fuel debt for this or that reason. However, clearly there are various reasons why customers incur debt and, although some may be unwilling to pay, others cannot afford to do so, or (for whatever reason) find it difficult to budget for bills, or have been presented with inaccurate bills by their suppliers. More could be done by suppliers to prevent and to limit the build up of debt.

Amount of debt

15. It is difficult to obtain an accurate picture of the amount of debt owed on average by customers who are disconnected. According to Ofgem’s quarterly report on its Social Action Plan, in Quarter 3 2004, 67 percent of gas customers in debt and 69 percent of electricity customers in debt owed less than £100; 21 percent of both gas and electricity customers owed between £100 and £300; 7 percent of gas and 6 percent of electricity customers owed between £300 and £600; and 5 percent of gas and 6 percent of electricity customers owed more than £600.²³ This report also records the average debt per customer as £134 for gas and £142 for electricity, but this calculation is for all those in debt to their supply companies, not just those disconnected for debt.²⁴ British Gas told us that in 2003 it was owed on average £139.19 for gas and £188.92 for electricity, but these figures included those who had already made arrangements to pay off their debt, whether by PPM or by instalment.²⁵ Energywatch suggested that those disconnected owed an average of about £150 per person.²⁶ British Gas initially agreed, on the basis of the length of time taken by the debt recovery process, but, after further research, reported that the average debt owed by its gas and electricity customers at the time of disconnection was between £300 and £400.²⁷

20Qq 46, 59 and 94

21The last complete quarter for which figures were available before we took oral evidence on this issue.

22Calculated from the Table entitled ‘Disconnections January-March 2004’ in Ofgem’s quarterly report on the Social Action Plan, Quarter 1 2004, 122/04.

23Social Action Plan Report, Quarter 3 2004, Slightly different figures are cited by the ERA in App 8, para 1.1; but the figures have not varied by more than two percentage points over the last three quarters.

24Social Action Plan Report, Quarter 3 2004

25App 3, para 3.6.1

26Q 14

27 App 3, para 3.6.2; for BG’s initial response see Qq 42 and 44

4 Limiting debt

Current way debt is pursued

16. Under a schedule to their licence, Ofgem currently requires supply companies to adopt and to implement a Code of Practice which, amongst other things, sets out a variety of methods for customers to pay for their fuel and a process for dealing with customers who fall behind in their payments.²⁸ The energy suppliers averred that they followed a lengthy process of payment recovery, including multiple telephone calls and one or more personal visits to customers in debt before they resorted to disconnection.²⁹ British Gas gave the most comprehensive account of this process.³⁰ The process was designed, among other things, to enable the companies to try to assess whether the customer required help and advice in order to tackle the debt. The suppliers' viewpoint was summarized as follows: "British Gas uses disconnection as a last resort... There are [sic] a series of safeguards including a comprehensive communication process that includes up to 14 attempted contacts with the customer over a 150 day period."³¹

17. Such a process is not without cost itself. Our witnesses agreed that a fair estimate of the average cost of disconnection to the industry was £150-200 per customer. British Gas suggested the cost of obtaining a warrant and actually disconnecting a supply was £80; the rest of the process (phone calls and letters to customers, and administration) was about £70. The ERA thought that most of the cost was incurred before application for a warrant.³²

18. While the energy companies emphasised the number of occasions on which they tried to agree payment arrangements with their customers, Energywatch and the charities from whom we took evidence were firmly of the view that the companies resorted too quickly to disconnection.³³ Ofgem was less critical but it too, suggested that the companies should be doing more to avoid disconnection.³⁴

Effect of 2002 guidelines

19. We have already outlined the six key areas for reducing debt and disconnection identified by Energywatch and Ofgem in their 2002 guidelines.³⁵ We asked our witnesses about progress in implementing the guidelines, and the extent of any impact they had had.

20. The ERA thought that a lot of progress had been made in implementing the guidelines, but there were still challenges in some areas. The Association cited in particular problems connected with the processes of transferring customers when they chose a different

28App 13, paras 1.1-1.2 (NEA); Q 124 (Ofgem)

29Q 42 (ERA) and App 7 (ERA)

30App 2, Annex, and paras 3.2 and 3.4. See also App 5, paras 7-8 and 10-11 (EdF Energy)

31App 2, para 1.3

32Qq 79-80 (BG); App 7, para 2.1 (ERA)

33Qq 6 (Energywatch) and 117 (Help the Aged)

34Q 141

35Paragraph 4 above

supplier.³⁶ Energywatch acknowledged that a number of companies were making efforts to implement the guidelines, and there were examples of good practice. However, it was disappointed with progress, not least because, it considered, if the guidelines on the six key areas were applied consistently by all companies, the number of fuel disconnections would plummet.³⁷ National Energy Action was more sceptical: it attributed the decline in the number of disconnections since 2002 less to the influence of the guidelines than to the suppliers' reactions to the public outcry after the Bates case.³⁸ Ofgem argued that the 2002 guidelines were never expected to solve the problem of debt and disconnection in themselves: they were intended to be the start of the process of improvement. Moreover, the guidelines were a very detailed account of best practice, and Ofgem did not consider it necessary for every supplier to comply with them all: "What you are looking for is the suppliers acting responsibly to have an overall approach that clearly incorporates best practice."³⁹

21. The officials from Ofgem told us that the regulator intended to conduct a review into the implementation of the guidelines at the end of 2004.⁴⁰ That review has not yet been completed, and we understand that it will not be finished for at least another two months. Useful though it would have been to learn the regulator's view of progress to date, the evidence we received pointed to some failures by the supply companies in their approach to the six key areas, and to further practical changes that they could make to improve the situation.

Minimising billing errors

22. Our witnesses were sharply divided about the number of customers threatened with disconnection or disconnected following billing or other administrative errors by the supply companies. Energywatch cited the complaints it had received from people who claimed to have been the victims of billing errors by energy companies: some were disputing the amount of the debt, the bills of others had been sent to the wrong address or had not been received at all, some had received bills for other people, and in other cases there was a dispute about which was the supplier company. Energywatch suggested that there were tens of thousands of billing errors per year; though this figure appears to include the frequent situation where consumption is estimated by the supply company because the meter has not been read, and there are clear and easy procedures for customers to correct such estimated readings or arrange for a proper meter reading. As far as other types of administrative error were concerned, Energywatch said that one of the most common was misdirection of payments after customers switched from one supplier to another, when bank account numbers, customer account numbers or customers' other details were wrongly recorded by the new company or were not deleted by the old company.⁴¹ Other problems included, for example, disconnection of the wrong flat in a block, or a failure to

36Q 50

37Q 11

38Q 104

39Qq 129 and 139

40Qq 129 and 140

41Qq 6, 12 and 17-18

contact customers about non-payment before disconnection. Energywatch's most dramatic claim appeared to be that six percent of those disconnected had already paid their bills.⁴²

23. Our other witnesses—not only the supply companies, but also the regulator and representatives of charities—were startled by the figures given by Energywatch, saying that these gave a far worse picture than their experience indicated.⁴³ There was also some dispute over the occurrence of such errors: British Gas said that the most common was disconnecting the wrong meter in a communal meter cupboard for a block of flats.⁴⁴ Further examination showed that the figures about the causes of disconnection in error given in Energywatch's Memorandum to us⁴⁵ were based only on the 239 complaints made to them between April 2003 and March 2004 by customers who said that they had been disconnected in error.⁴⁶ **It appears that no one knows whether these 239 customers are a large or small proportion of those disconnected in error, so we cannot judge the true scale of the problem, still less can we draw any statistical conclusions about the types of error that lead to disconnection. Although Energywatch's analysis cannot reliably be used to extrapolate statistics, it is useful in indicating the types of problem that arise.**

24. Leaving the actual numbers affected on one side, it is clear that **companies still make too many errors such as wrongly recorded names or addresses of customers, or—most frequently—inaccurate meter readings. Even if, as the ERA suggests, such mistakes affect a small proportion of the millions of bills that are sent out each year by energy suppliers,⁴⁷ this would still mean that a significant number of customers are caused at the least inconvenience and in some cases extreme distress and hardship, culminating in the disconnection of their energy supply. Errors cannot be eliminated completely from any system, but the supply companies should make greater efforts to minimise their number, and should put in place robust arrangements for correcting mistakes quickly once they have been detected.**

Prevention of debt

25. Clearly, it is better for all parties if customers do not fall into debt to their energy suppliers in the first place. Help the Aged praised the debt counselling and other assistance given by some companies.⁴⁸ However, Energywatch noted that only one company complied with the section of the 2002 guidelines which said that, if a customer who had previously paid regularly stopped paying, the company should approach the customer to see if help and advice were needed.⁴⁹ British Gas argued that most of its customers who were finding it difficult to pay their bills contacted the company to agree a repayment schedule or to arrange for a pre-payment meter to be fitted. In support of this, it cited the

42Q 2

43Qq 48 (ERA), 122 (National Energy Action) and 151-152 (Ofgem)

44App 3, para 3.4.2 British Gas added that it had introduced extra procedures to try to ensure that the supplies were traced back to the proper flat before disconnection.

45App 9, p17, Figure 1

46App 9, Executive Summary, para 2; App 16 and App 10

47Q 51

48Q 112

49Q 11

statistic that, although 25 percent of its gas customers received ‘red’ final reminders, only 0.06 percent were, in the end, disconnected.⁵⁰

26. We were told that one or two companies had trust funds that, amongst other things, gave advice about benefits to which people might be entitled. This was felt to be useful because people in fuel debt often had difficulties in paying other bills, too. Energywatch described the fund set up by EdF with a capital base of several million pounds, which was used to provide debt counselling and, where appropriate, to advise on claiming benefits or sometimes to help directly with bill payments.⁵¹

27. British Gas has recently established a trust fund, but it also described to us an alternative approach. In partnership with the Money Advice Trust, it was funding dedicated advisers through the National Debt Line. These advisers, in turn, could refer people to trust funds. British Gas had also produced a booklet, endorsed by the Money Advice Trust, giving practical advice on debt management and contact details of various bodies that could help with further advice and support. This booklet was sent by British Gas to all its customers who were in danger of disconnection.⁵²

28. The debt counselling and trust fund schemes put in place by a number of energy companies are useful and welcome. However, not all companies are doing enough. We do not wish to be prescriptive about exactly how companies achieve this, but we believe that all should give advice on managing debt, and that Ofgem should report on their compliance with best practice in this regard.

29. There was general agreement that many customers are not aware of the benefits to which they are entitled. We were told that a number of the energy companies devoted efforts to ensuring that people were informed about the benefits that they could claim. This advice was often part of companies’ approach to promoting energy efficiency as well, not least because the Energy Efficiency Commitments to which supply companies are subject contain incentives for the companies to direct 50 percent of their energy-saving programmes to ‘priority group’ customers, who are to a large extent defined as those in receipt of certain benefits.⁵³ British Gas, for example, included a ‘benefits health check’ as standard in all its fuel poverty programmes.⁵⁴

30. We consider that all supply companies should be required to provide a benefits health check as a standard part of their fuel poverty programmes.

31. There are limits to the effectiveness of advice on debt management and the claiming of benefits. Apart from the difficulty of identifying customers who need advice and help, which we discuss in more detail below,⁵⁵ people in debt to their energy suppliers often have

⁵⁰App 2, para 2.2

⁵¹Q 5; App 5, para 23 (EdF Energy)

⁵²Q 71 and App 2, para 2.3

⁵³Q 112 (National Energy Action); App 6, para 4.1 (Energy Action Scotland)

⁵⁴App 2, para 3.2(d) A benefits health check is a process of helping customers to identify benefits to which they may be entitled but which they are not claiming. See also our Report on Fuel Poverty (Sixth Report of Session 2001-02, HC 184) and the subsequent oral evidence from FPAG (Minutes of Evidence and Written Evidence given by Fuel Poverty Advisory Group, 16 December 2003, HC 143-i) for examples of the importance of energy efficiency programmes in not only reducing energy consumption but also increasing income for people in fuel poverty.

⁵⁵Paragraphs 62-65

wider debt problems and some, in particular older people, do not wish to give personal information to energy companies or to claim the benefits to which they are entitled because they are reluctant to admit that they cannot cope.⁵⁶ Moreover, Energywatch said that, although any increase in the amount of benefit payments or in the number of those claiming benefits to which they were entitled would reduce the problem of fuel debt, for very poor households there was no guarantee that the extra money would be spent on fuel bills: it could be diverted to other, more apparently urgent, ends.⁵⁷

56Q 103 (Help the Aged)

57Q 4

5 Payment methods

32. The supply companies emphasised the range of alternative payment methods that they offered. These included payment by cash or cheque twice monthly, monthly or quarterly (all in arrears) at a variety of locations, quarterly equal payments, the use of direct debit or debit cards, and online payments.⁵⁸ Unfortunately, most of these are not helpful to poorer customers who find it difficult to budget.

Pre-payment meters

33. As we have mentioned above, PPMs are generally acknowledged to have played a large part in reducing the number of disconnections, particularly in the electricity supply industry.⁵⁹ They do not simply benefit the supply companies: many customers find them a useful way to budget for their fuel costs. The following table illustrates the increase in the use of PPMs.

No of Customers with PPMs	1991	2003
Gas Customers	0.7 million	2.0 million
Electricity Customers	1.2 million	3.7 million

Taken from Appendix 13, para 3.3 and table

34. Gas supply companies emphasised to us the technical difficulties that limited their ability to install more PPMs as an alternative to disconnecting customers.⁶⁰ BG told us that in 2003, while it had been able to install a gas PPM during only 4.7 percent of its visits to disconnect supplies, it had been able to install electricity PPMs on 93.8 percent of such visits. More gas PPMs could have been installed if customers had given BG's engineers access to the premises.⁶¹

35. Ofgem was not entirely convinced by these arguments. It suggested that companies did not make sufficient efforts to ensure that customers would be present on the day when the warrant for disconnection was served so that it would be possible to carry out all the safety checks needed when a PPM was installed. Ofgem concurred with us that customers might well prefer to allow access to their premises to allow the fitting of a PPM rather than to return home to discover that they had been disconnected.⁶²

36. We recognise that it is more difficult and time-consuming to fit a PPM for gas supply than for electricity supply, but we are not convinced that gas supply companies are making enough efforts to fit such meters. This may be in part because of the widely-acknowledged shortage of qualified gas engineers, who have to carry out the process. Whatever the reason for the present situation, it leaves gas supply companies

⁵⁸App 2, para 2.3 (BG); September paper, p 11

⁵⁹Qq 13 (Energywatch) and 36 (ERA), and App 13, para 3.3 (NEA)

⁶⁰For a description of the difficulties, see paragraph 8 above

⁶¹App 3, para 3.2.1

⁶²Qq 154-157

vulnerable to the accusation that they prefer disconnection as a cheap and easy alternative to fitting PPMs. To rebut this argument, they need to prove that they are making more efforts to fit a PPM wherever such a payment method is appropriate for the customer.

Alternatives to PPMs

37. PPMs are not suitable for all customers in danger of incurring debt. Some customers are physically unable to access meters; others are too confused to manage pre-payment.

38. Where PPMs are installed, the most significant danger is that of self-disconnection, whether deliberate or inadvertent. Help the Aged's research (published as 'Older and Colder') found widespread self-disconnection among elderly people because they were afraid of high energy costs.⁶³ (This problem is not confined to those who use PPMs: National Energy Action cited research showing that some customers used physical disconnection of their energy supply in the same way, to put a temporary stop on fuel costs.)⁶⁴

39. Generally customers with PPMs have been subject to higher charges for their fuel than those who have paid in monthly or quarterly instalments. The cheapest method of payment has normally been by direct debit, for which supply companies have offered a discount on customer bills. It has long been argued that it is unfair that the most expensive bill payment methods are those used most frequently by poorer sections of the community who need to budget carefully. **Energy supply companies have suggested in the past that they are not permitted to cross-subsidise the administrative costs associated with PPMs from other customers. We are therefore pleased to note that Ofgem has recently published a paper not only suggesting that it sees no competition problem in such cross-subsidy but also encouraging it.**⁶⁵ Moreover, even where the use of a PPM incurs a higher charge, paying this may well be cheaper than the cost of disconnection and then reconnection of the fuel supply.⁶⁶

Fuel Direct

40. For those on low incomes for whom a PPM is unsuitable, our witnesses were unanimously of the view that one of the most effective methods of payment was Fuel Direct. This is a scheme for the automatic regular deduction of small sums of money from certain types of benefit to repay fuel debt for people who cannot easily budget and who are in imminent danger of disconnection. It is a method of last resort. However, use of Fuel Direct has declined over recent years. Ofgem said the number of people on the scheme had decreased four or five times over the last ten years.⁶⁷ This seems to be because of the limitations of the scheme rather than through any decrease in the number of people for whom it would be helpful.

63Q 102 Supply companies are aware of this problem: App 5, para 18 (EdF Energy)

64Q 102

65Letter from Sir John Mogg, Chairman of Ofgem, to chief executives of supply companies, dated 1 December 2004. For an example of a company taking a lead in this area, see App 5 para 22 (EdF Energy)

66Q 121 (NEA)

67Q 160

41. First, Fuel Direct is confined to a small number of qualifying benefits—currently just income support, Jobseekers Allowance and the pension credit.⁶⁸ Both the energy companies and the charities who gave evidence to us believed that the range of qualifying benefits should be widened: British Gas’s list, which was endorsed by several other witnesses, comprised disability living allowance, attendance allowance, long-term incapacity benefit, the retirement pension and income support with disability premium.⁶⁹

42. Just as significantly, the current scheme is complex, bureaucratic and expensive for the fuel companies. Deductions are arranged by the local social security offices, so the energy companies have to contact these offices direct—there is no central approval/clearing system. Furthermore, the system for arranging deductions has not been automated, and each local social security office has its own, differing administrative procedures for the scheme. It is difficult for the energy companies to cope with the plethora of different requirements.⁷⁰ We were told that one of the main barriers to wider use of Fuel Direct had been the Department of Work and Pensions (‘DWP’).⁷¹ Both the charities and the energy companies had discussed with DWP expanding the range of benefits and simplifying the administrative procedures.⁷² Ofgem told us that it had “pressed Ministers” on the subject several times in recent years.⁷³ DWP’s response had been that there would be opportunities for improving the scheme “once they got everything automated”.⁷⁴ Ofgem told us that the transfer of benefit payments to Automated Credit Transfer (ACT) represented a tremendous opportunity to improve Fuel Direct but DWP would have to invest more in automation so that other types of debt could be repaid in this way, which would make the operation of the system more cost-effective. Ofgem noted that this would also require the collaboration of all relevant government departments.⁷⁵

43. Finally, we were told that at present Fuel Direct is focussed on energy customers whose debt has grown to such an extent that they are in imminent danger of disconnection. It seems that customers struggling to budget are unable to request access to the scheme unless they already have significant debt.⁷⁶ While many energy customers in receipt of qualifying benefits are capable of managing their own affairs—and, indeed, prefer to do so—our witnesses felt that an earlier trigger for the scheme would be helpful for those finding it more difficult to budget.

44. Fuel Direct would not be suitable for every customer on benefits who owes money to energy companies. However, we agree with National Energy Action that it “could develop into an acceptable tariff option rather than [as at present] a virtually moribund payment method of last resort.”⁷⁷ To achieve this, eligibility for the scheme should be

68September paper, p 17

69App 3, para 3.8.1; see also Qq 52-54 (ERA and BG), 107-108 (NEA), and App 12, para 3 (National Consumer Council)

70Qq 52-53 (BG and ERA), 105 (Help the Aged), and 106 (NEA)

71Q 105 (Help the Aged)

72Qq 54 (BG) and 105 (NEA)

73Q 143

74Q 105 (NEA)

75Qq 143-145

76Q 106 (NEA)

77App 13, para 6.2

widened to the range of benefits listed above; the thrust of the scheme should be to enable customers to prevent the accumulation of debt rather than just to repay it when they are on the brink of disconnection; and the administration of the scheme must be automated and made consistent throughout the country so that the energy companies are not deterred from using it by its difficulty, complexity and expense. The DWP has, it appears, argued for years that what it was waiting for was automated payment of benefits. The soon-to-be-completed move to ACT provides an opportunity to revive Fuel Direct. We would like now to see an account from the Government of how Fuel Direct is to be improved, and a timetable for its implementation.

6 Problems with process

45. As described above, the energy companies laid great emphasis on the length of time they took and the number of attempts to contact the customer they made before proceeding to disconnection.⁷⁸ Ofgem described the regulatory requirements as providing “substantial safeguards” against companies’ moving too quickly to disconnection.⁷⁹ The ERA told us that disconnection did not occur until after “at least a three month process”.⁸⁰ The complaints made to Energywatch by customers who said that they had had little or no contact with their supply company before their electricity or gas was disconnected indicate that these processes do not always work.⁸¹ We are also aware of such problems through our constituency work. Unfortunately, there is no hard information on the scale of the problem.

46. It is not clear to us how many of the supply companies at present have implemented procedures as comprehensive as those described by British Gas,⁸² nor can we be sure of the extent to which best practice has been adopted in the industry. We therefore ask Ofgem to assure us that all supply companies have committed themselves to this type of process.

47. On the question of actual implementation of proper procedures, we are pleased to record Ofgem’s statement that it could and would impose financial penalties on companies that were not implementing debt-handling procedures properly.⁸³ Ofgem’s quarterly reports on progress in its Social Action Plan provide a useful mechanism for keeping up the pressure on companies to follow their procedures. We urge any advisory bodies and charities involved in supporting customers in fuel debt—including Members of Parliament—to report to Energywatch any clear examples of failure by companies to follow adequate debt-repayment procedures; and Energywatch must notify Ofgem of any companies with poor records.⁸⁴

Priority Services Register (‘PSR’)

48. The supply companies are required under their licences to provide special services to customers on their Priority Services Register. Those eligible for registration are people who are of pensionable age, blind, deaf, otherwise disabled, or with a long-term medical condition. The services provided include repositioning of meters, redirecting bills to third parties, and quarterly meter readings, all of which may be of use to customers experiencing difficulties in paying for their fuel. The Register also contains information about any special needs that a customer may have in respect of energy supply. This and the general

⁷⁸App 7 (ERA), App 2, paras 3.2 and 3.4 and Annex (BG), Q 42 (ERA)

⁷⁹Q 124

⁸⁰App 7

⁸¹App 9, *passim*

⁸²App 2, para 1.3 and Annex

⁸³Q 141

⁸⁴See appeal from Ofgem: Q 159

eligibility criteria for the PSR help companies to identify vulnerable customers. Unfortunately, only the customers themselves can ask for inclusion on the PSR: no one else can refer them.

49. Our witnesses agreed about the importance of registering eligible people. However, at the time of our oral evidence session, commentators were suggesting that the PSR was not working as well as had been hoped: customers were not aware of the service, a comparatively small proportion of those eligible were registering, and there were concerns that the energy companies were making too little effort to maintain the PSR. Energywatch reported to us that, when it undertook a ‘mystery shopper’ exercise by telephone, some staff had even denied that their company had a PSR.⁸⁵ Some of the companies claimed that they proactively encouraged vulnerable customers to register, but the charities felt that they could do far more to promote awareness of the PSR and persuade at risk customers to register.⁸⁶

50. Since our evidence session, further work by Ofgem has confirmed low awareness and use of the PSR by eligible people. Both Energywatch and Ofgem have recently made considerable efforts to publicise the existence of the PSR and the benefits of registration,⁸⁷ and the ERA claims that companies have made progress in training staff to recognise those potentially eligible and make them aware of the scheme.⁸⁸ However, Ofgem’s research shows that much remains to be done.

51. In its September paper, the Energy Retail Association suggested a number of ways in which the Government could help to publicise the Priority Services Register. It proposed that health workers and providers of social services encourage those eligible to register; that information could be targeted at families on child benefit, and that leaflets on the PSR could be made available in benefit offices, doctors’ surgeries, schools, and the offices of housing associations and local authorities.⁸⁹ All of these suggestions seem sensible. We ask the Government to inform us which are being taken up.

Warrants process

52. If, despite their efforts, companies are unable to contact their customers about outstanding bills, they may as a last resort apply for a warrant to allow entry to the premises to disconnect supply. The companies are supposed to ensure that they have exhausted all other approaches, and they have to provide assurance to this effect, on oath, to the magistrates to whom they apply for a warrant. However, Energywatch said that the companies did not take the warrant application process seriously enough. Fairly junior company officials made the decision that enough effort had been made to contact the customer and—Energywatch implied—there might be a temptation to end the attempts at contact as this reduced their caseload. The magistrates, who were supposed to provide a

85Q 10

86App 2, para 3.2(c) (BG); Q 114 (NEA)

87See, for example, Ofgem press release no. R/78, dated 30 November 2004, ‘New research identifies need to target vulnerable customers more effectively’

88September paper, p 18

89*ibid.*

final check on the need for a warrant, were faced with piles of applications, and, in some areas, the magistrates examined only a few in detail and then simply signed the rest.⁹⁰ Energywatch suggested it should be mandatory that, in order to obtain a warrant, a responsible senior official from the company should certify that all appropriate checks had been made, that the debt was genuinely owed to the company, the address was correct, and that the company had obeyed all its licence conditions and had followed best practice in debt processing.⁹¹

53. British Gas acknowledged that in 2003 it had processed 60,000 warrants, but noted that a significant proportion of those related to properties that were later found to be unoccupied.⁹² It rebutted Energywatch's suggestion that the warrant application process was cursory, and listed the proofs of due process that its officers had to provide on oath to the magistrates.⁹³ Ofgem, however, thought that Energywatch's suggestion was sensible: companies should have good processes that were 'signed off' at an appropriately senior level to demonstrate that the issue of a warrant was justified.⁹⁴

54. We agree with Ofgem. If the companies' processes are as thorough and robust as they claim, then there should be little difficulty in relatively senior company officials' satisfying themselves that proper procedures have been followed in full, and signing a document to confirm this. We ask Ofgem to inform us what progress has been made in pursuing Energywatch's proposal.

90Qq 16 and 7

91Q 7

92Q 82

93App 3, para 3.5.1

94Q 132

7 Protecting vulnerable customers

55. The main emphasis in the efforts to prevent debt and disconnection has been on the protection of vulnerable customers. This was the core of Ofgem's and Energywatch's joint guidelines in 2002, and was the reason for ERA's original proposals for the industry, which were put out to consultation and on which we took oral evidence, and for its final paper published on 8 September 2004.

56. The regulatory framework provides some protection for vulnerable customers. A condition of the licences for gas suppliers (Condition 37A) is that pensioners must not be disconnected in winter. However, there is no requirement for companies to reconnect pensioners' supplies disconnected in, for example, August as winter approaches. Moreover, the condition applies only to households consisting entirely of people of pensionable age or under 18 years: if pensioners live with other adults, disconnection can still take place.⁹⁵

57. Companies are also required to adopt and implement Codes of Practice containing certain elements. Companies must offer a wide variety of payment methods and, if a debt accrues, must set the repayment at a level the customer can afford (if a customer relies only on basic benefits, this cannot be more than £2.80 a week).⁹⁶ Disconnection of supply is permitted only if the customer has failed to agree repayment terms, and even then the company is required to attempt to install a PPM before disconnection is allowed.⁹⁷

58. However, as indicated elsewhere in our Report, the consensus is that these broad requirements do not provide sufficient protection for vulnerable groups. In 2003 energy companies imposed on themselves a voluntary moratorium on disconnecting vulnerable customers. British Gas decided that broadly receipt of certain types of benefit indicated that a customer was likely to be vulnerable, and, where such customers were at risk of disconnection, the process of disconnection was halted.⁹⁸ The ERA's final paper of September 2004 said that, at that point, since December 2003 no vulnerable customer had been disconnected.⁹⁹ However, it is not easy to identify the vulnerable. The main issues are as follows.

Definition of 'vulnerable customers'

59. Before ERA's consultation process in 2004, energy supply companies used different definitions of the 'vulnerable customers' to whom extra advice and support should be offered. ERA attempted to find an agreed 'ready-made' definition of vulnerable groups, but found wide variations in legislation and in use amongst, for example, social services representatives.¹⁰⁰ ERA's first attempt at an industry-wide definition in its April consultation paper was welcomed as trying to encompass all those potentially at risk, not

⁹⁵ App 13, para 4.2 (NEA), App 1 paras 2.2-2.3 (Age Concern)

⁹⁶ Q 135 (Ofgem)

⁹⁷ Q 124 (Ofgem)

⁹⁸ App 2, para 3.1

⁹⁹ p 6; see also App 5, para 9 (EdF Energy)

¹⁰⁰ App 7

just pensioners and the disabled, by including, for example, families with young children. There were criticisms of the definition, however, in particular its emphasis on the “customer”, which was interpreted as meaning that households would receive the extra protection only if the person who held the contract with the supply company was a member of one of the vulnerable groups.¹⁰¹

60. The ERA’s revised definition concentrates on people at risk:

“A customer is vulnerable if for reasons of age, health, disability or severe financial insecurity they are unable to safeguard their personal welfare or the personal welfare of other members of the household.”¹⁰²

The ERA’s September paper gives further guidance to companies on how to identify such customers, encompassing such factors as whether a customer is caring for an elderly person in the household; if a permanent member of the household is disabled and unable to support themselves or has a long-term medical condition; whether a household member has been identified as vulnerable by a social worker, a doctor or health visitor; if the household is on a low income or state benefit and contains young children; or whether the customer is dependent on medical equipment operated by electricity, including stair lifts.¹⁰³ The ERA says the guidance is not intended to be over-prescriptive as this would run the risk of excluding vulnerable customers; it will be for the companies to review the circumstances of each customer on a case-by-case basis. The ERA has committed itself to reviewing the guidance after a year to assess its effectiveness and to refine it in the light of experience.¹⁰⁴

61. The rewording of the definition of vulnerability to make it clear that it extends to members of a customer’s household meets the most frequently-voiced concern of our witnesses and of the respondents to the ERA’s consultation paper. However, it is not clear that even this definition would apply to many of those whose energy supplies are disconnected for debt at present.¹⁰⁵

Identifying the vulnerable

62. The ERA’s September paper sets out in considerable detail a model for how supply companies will attempt to identify vulnerable customers during their contact with customers over debt.¹⁰⁶ The ERA states that typically, over a period of several months, companies will make eight attempts to contact customers in debt by letter, two attempts at contact by telephone, and two personal visits to the property, before any application to the court for a warrant and the final visit to install a PPM or disconnect supply.¹⁰⁷ The ERA explains that: “If, during a contact with an indebted customer, ... suppliers’ front line staff

¹⁰¹ See Qq 21 and 31 (Energywatch), 130 and 138 (Ofgem), and 45 and 58 (ERA) and App 12, para 2 (National Consumer Council)

¹⁰² September Paper p6

¹⁰³ *Ibid* p7

¹⁰⁴ *Ibid* pp 6-7

¹⁰⁵ Q 46 (ERA)

¹⁰⁶ Figure 1

¹⁰⁷ September Paper p 10

are made aware that a customer is unable to pay the bill, they will attempt to capture and record information about the customer, subject to the customer being willing to provide this.” Such information would include the customer’s age, if the customer was receiving benefits, the number of young children in the household, and whether anyone in the household was disabled or had special needs. The staff would flag up the records of customers identified as potentially vulnerable so that colleagues would be aware of this information during any future contact with the customer. Staff would also encourage eligible customers to register on the Priority Services Register.¹⁰⁸

63. ERA told us: “In discussions with social services representatives it is clear that there are no hard and fast rules in identifying a vulnerable customer... The only clear guidance that social services can offer in identifying vulnerability is to look for changes in lifestyle that have made it difficult for a customer to pay the bill.”¹⁰⁹ Moreover, we have already noted that some customers are unwilling to give personal details to companies. Extracting the right information to make an assessment of vulnerability will therefore be a difficult task requiring trained staff. We asked our witnesses whether they believed that the companies would commit enough time and money to training their staff to the level required. The ERA noted that not all staff would have to be trained to the same level: those operating at general call centres would not need high levels of training, but the specialists dealing with repayment negotiations would.¹¹⁰ British Gas told us that it was already putting in place a team of specialists to ensure that all referrals of vulnerable customers across the organisation were properly and consistently dealt with.¹¹¹ Ofgem suggested that the retraining necessary would take some months to complete.¹¹² Energywatch was optimistic that, in financial terms alone, the effort would be worthwhile for the companies: given the cost of debt and disconnection to them, an investment of about £40 in training each member of staff to give appropriate advice in order to avoid disconnection made commercial sense.¹¹³ The NEA, however, was sceptical not only about the likelihood of staff being able to identify vulnerable customers, even after training, but also about the inherent conflict in the roles of such staff: as, in essence, revenue protection agents for the company, would they really make the necessary effort to identify vulnerable customers and refer them for extra support?¹¹⁴

64. We share the NEA’s concerns. It is impossible to judge whether the staff of energy supply companies will be able to identify most vulnerable customers and subsequently prevent the disconnection of their fuel supplies. The proof will lie in the disconnection figures. Because of the length of the disconnection process, Ofgem’s quarterly reports do not yet show the effects, if any, of these initiatives. We expect Ofgem to keep the situation under close review, and we recommend our successors to return to this issue.

108 *Ibid* pp 9-10: for more information on the Priority Services Register, see paragraphs 48-51 above

109 App 7

110 Q 56

111 App 2, para 3.2e

112 Q 131

113 Q 24

114 Qq 103 and 117, and App 13 (NEA), para 5.4. See also App 1, paras 2.5-2.6 (Age Concern) and App 4, para 2 (Centre for Utility Consumer Law)

65. The ERA noted a further problem with ensuring that their staff were aware of the identity of vulnerable customers. When customers' records were 'tagged' to indicate vulnerability and details were noted, these details were not passed on if the customer switched supplier. In effect, the new supply company had to go through the same process of identification again. There were two reasons why companies did not pass on such details: one was a concern about whether this would comply with the Data Protection Act 1998; and the other was incompatibility between the electronic data management systems used by individual companies. The ERA suggested that: "the cost of harmonisation [of such software] is prohibitive at this time."¹¹⁵

66. It is absurd that companies should spend time and effort in identifying vulnerable customers in order to safeguard them only for this protection to be lost if the customers follow the regulator's and Energywatch's advice to change supplier. We believe that the companies should, as a matter of urgency, seek clarification from the Information Commissioner about the Data Protection issue. Given that the transfer of information between companies is designed simply to protect the customer, we hope that the Information Commissioner will be able to permit it, with safeguards against use of the data for other purposes. The comfort of customer confidentiality is of little consolation if the members of the household are freezing to death.

67. The technical problem may take longer to solve. However, as noted above, difficulties with transferring data on switching of supplier do not end with the flagging up of vulnerable customers: many of the problems with billing errors that lead to the threatened or actual disconnection of supply occur when customers switch suppliers. Sorting out incompatibilities between electronic systems must form a major part of the effort to tackle the failures in the customer transfer process. Despite the expense, we believe that Ofgem should press the companies to deal with these problems expeditiously.

The 'safety net'

68. The safety net for vulnerable customers proposed by the ERA consists basically of the elements already discussed in this Report: reference to those able to advise on debt management, a range of repayment options (including PPMs), the use of Fuel Direct, and provision of energy efficiency advice and support under various schemes (including benefits health checks). However, for vulnerable customers, the ERA proposes that companies should make extra efforts to involve external support mechanisms, as such customers often need wider help not limited to managing energy costs and the repayment of fuel debt. For example, under the proposals, staff dealing with vulnerable customers would liaise with any appropriate person or body that could provide support, whether family members, friends, or social services departments. Such liaison has become easier since the Information Commissioner clarified that, in his view, energy supply companies were allowed to pass on key information to any person or organisation that might be able to help a vulnerable customer at risk of disconnection.¹¹⁶

¹¹⁵September paper, p 10

¹¹⁶*ibid*, pp 10-11 and 13. For an account of how one company tries to apply such a safety net for vulnerable customers, see App 5, paras 12-17 (Edf Energy)

69. The ERA also acknowledged the potential problem of self-disconnection when a PPM was installed. In its September paper, it said: “To ensure that a recently installed meter is being used and the customer is coping with the repayments, suppliers will make regular checks on the customer, often in conjunction with a carer or other support service.”¹¹⁷ This should help where a customer is experiencing problems in using a PPM. However, the ERA noted that, if customers chose not to use the PPM (and this problem seemed more prevalent with gas supplies which were often regarded by customers as less vital than electricity supplies), then often they would not respond to the company’s attempts to contact them.¹¹⁸

Reference to social services

70. Apart from improving the operation of existing processes for dealing with debt problems, the ERA proposed that, if all else failed, vulnerable customers should be referred to social services.¹¹⁹ The ERA described to us the rôle for social services that it envisaged: “to undertake an assessment to decide on the most appropriate action, which might include help in the management of the customer’s financial affairs, for example by setting up arrangements with a third party such as a relative or a court.”¹²⁰

71. Other witnesses were frankly sceptical about this proposal, given the huge existing demands on social services departments.¹²¹ Ofgem suggested that the energy companies should not depend too heavily on social services but should seek to work with a wide range of groups—such as charities and voluntary bodies—that could provide support to customers in repayment difficulties. The regulator felt that social services departments could be of most use in, for example, helping to identify family members who could assist vulnerable customers.¹²²

72. We understand from the tone of the ERA’s September paper that the social services departments were even more concerned than our witnesses about the apparent dependence on them to sort out energy customers’ problems. The Association of Directors of Social Services told the ERA that their priority was those already identified as vulnerable by their own systems. While they would check any referral by an energy company to see whether they had already classified the customer as vulnerable—and, if so, would follow up the referral—they could not simply take on the cases of any customers identified as vulnerable by the energy companies.¹²³

73. The ERA subsequently agreed with the Association of Directors of Social Services a best practice approach to consulting local social services departments and jointly identifying customers in need of support. This approach comprised a number of steps. While the process was under way, and if at the end of it the customer was agreed to be vulnerable, the

¹¹⁷*Ibid* p 12

¹¹⁸*Ibid* p 19

¹¹⁹App 7; Consultation document, Figure 1

¹²⁰App 7

¹²¹Qq 105 (Help the Aged) and 133 (Ofgem); App 13, para 5.5 (NEA), App 1, para 2.7 (Age Concern) and App 12, para 2 (National Consumer Council)

¹²²Q 133

¹²³September paper, p 14

fuel supply would not be disconnected. Once an energy company had identified a customer as vulnerable and at risk, it would ask the social services department to check whether the customer was already on the department's 'at risk' list. If so, social services would arrange support. If not, the supplier would provide social services with its reasons for assessing the customer as vulnerable to enable the department to decide a course of action. If necessary, the supplier would carry out a second visit to the customer to re-assess the situation and gather further evidence of vulnerability for social services.¹²⁴ Apart from visits to customers agreed to be vulnerable, in extreme situations the social services departments might intervene by arranging power of attorney or applying to the Court of Protection to help with the management of the customer's financial affairs.¹²⁵

74. The ERA concluded that, although the number of times departments are contacted by companies will vary from area to area, local offices should not normally receive more than one or two referrals a month of customers considered by their supply companies as being potentially at serious risk. The ERA considered that the caseload would be small because: "Disconnections as a whole continue to fall and suppliers' systems have improved to the point that customers identified as vulnerable are not disconnected."¹²⁶

75. While the ERA's latest proposals have reduced the burden which the earlier ones appeared to place on local social services offices, this has merely confirmed that the onus is on the companies themselves to identify, advise and support vulnerable customers. For the reasons already explained, we are not convinced that they will be able to provide a complete safety net. However, they must try.

124*Ibid* p 15, Figure 3

125*Ibid* pp 15-16

126*Ibid* p 16

8 Banning disconnection

76. Noting that, for health reasons, the water industry is no longer allowed to disconnect its domestic customers for debt, we asked whether—also for health reasons—there should be a similar ban on disconnection for fuel debt. Our witnesses were sharply polarised. Both National Energy Action and Help the Aged favoured a complete ban on disconnection (though the latter limited this to a ban for older people). They suggested that this was the only way to focus the attention of energy companies on the problem—if the companies were in danger of losing revenue because of a ban on disconnection, they would be forced to provide proper advice and support to those falling into debt.¹²⁷ The supply companies, on the other hand, argued that if they could no longer threaten people with disconnection for debt, then a number of customers would be less inclined to regard paying their fuel bills as a priority; there would be more bad debt for companies to write off; and the main people to suffer would be the customers—especially those on low incomes—who did pay as their bills would have to rise to cover the losses from debt.¹²⁸ In support of their case, the supply companies argued that in the water industry bad debt had increased significantly since the ban on disconnecting water supplies. We were told that the typical gross write-off for bad debt had risen to about 2.5 percent of the turnover of water companies, while for fuel companies write-off was currently in the region of one percent of turnover. If bad debt increased similarly following a ban on fuel disconnection, British Gas said that the total it would have to write off would rise from the current £62 million per year to about £150 million. Spread over its customer base, this would equate to an increase in domestic customer bills of, on average, £7–£8 a year.¹²⁹ The ERA estimate was similar to this.¹³⁰

77. Most of the charities did not accept these arguments. They argued that, as the water industry did not have the option of installing PPMs, bad debt there was likely to be higher than for energy supply companies; and they suggested that there was no reason to spread the extra cost of bad debt over the whole customer base—increases could be confined to those customers paying by direct debit or who otherwise appeared to be “better able to pay”, or customers on the Priority Services Register could be exempted from the increase.¹³¹ They also pointed out that the companies already incurred costs of about £150 per customer in the disconnection process, and that provision of extra energy saving or financial advice would probably be cheaper than maintaining a big legal department to deal with the issue of warrants for disconnection.¹³² The companies responded by saying that a ban on disconnection would simply mean longer recovery times, so debt would swell, there would be more use of private debt management agencies, and a greater likelihood that non-payers would be taken to court, which might push more people into bankruptcy and

127Qq 113 and 116-117 (NEA), 114, 117 and 119 (Help the Aged); App 13, para 6.2 (NEA); App 4 (Centre for Utility Consumer Law); App 6, para 7.1-7.2 (Energy Action Scotland); and App 17 (UNISON)

128Qq 72-78 (ERA and BG), App 2, paras 4.1-4.2 (BG), App 3, paras 3.3.2-3.3.6 (BG), App 7 (ERA) and App 5, para 4 (EdF); September Paper, p 22

129Q 78

130Qq 72-73 and 76-77

131Q 121 (NEA)

132Q 118 (Help the Aged)

would more than offset any administrative savings to the companies from an end to disconnection.¹³³

78. Ofgem and Energywatch stood to one side of this dispute. Energywatch suggested that, if its suggestions about improving protection for vulnerable customers, supplying enough timely advice to limit debt, and initiatives on debt repayment methods were implemented throughout the industry, the problem of fuel debt and disconnection would reduce dramatically.¹³⁴ On the other hand, it felt, that concentrating on banning disconnection was a distraction: it meant that there would be no alleviation for those in debt for many months.¹³⁵ Ofgem was concerned that a ban would lead to an increase in fuel debt, which would be unfair to the customers who paid their bills. However, Ofgem warned that the industry had to demonstrate that it had in place good, well-observed procedures for limiting debt and assisting customers on low incomes in order to justify the continuance of the sanction.¹³⁶

79. As the debates last year on the Energy Bill revealed, the Government accepts the supply companies' arguments that a ban on disconnection would lead to a significant rise in fuel debt. However, we endorse Ofgem's warning: if these companies are to be allowed to retain the right to disconnect supplies to customers on the grounds of debt, then they must clearly demonstrate that they have taken all practicable measures to resolve the problem earlier. They must provide more support and advice to customers in financial difficulties, particularly those in vulnerable groups, and, for gas companies, they must make much greater effort to install PPMs to avoid the need for disconnection. Moreover, they must reduce the number of billing errors, particularly in connection with the customer transfer process. Unless the industry demonstrates a serious commitment to and success in addressing these problems, we would recommend the Government to legislate to ban disconnections of domestic fuel supply.

133App 3, para 3.3.2 (BG); September paper, p 22

134Qq 20 and 29

135Q 29

136Qq 147, 169 and 171. Age Concern was also concerned about the effect of a ban on disconnection on older people who paid their bills: App 1, para 2.3

Conclusions and recommendations

Identity of those disconnected

1. We do not believe that the statistical information is as yet either comprehensive or detailed enough to state that a specific percentage of those disconnected fall into fuel debt for this or that reason. However, clearly there are various reasons why customers incur debt and, although some may be unwilling to pay, others cannot afford to do so, or (for whatever reason) find it difficult to budget for bills, or have been presented with inaccurate bills by their suppliers. More could be done by suppliers to prevent and to limit the build up of debt. (Paragraph 14)

Disconnections in error

2. No hard information about the true scale of the problem is available, still less can we draw any statistical conclusions about the types of error that lead to disconnection. Although Energywatch's analysis (which was based on 239 customers who complained that they had been disconnected in error) cannot reliably be used to extrapolate statistics, it is useful in indicating the types of problem that arise. (Paragraph 23)
3. Companies still make too many errors such as wrongly recorded names or addresses of customers, or—most frequently—inaccurate meter readings. Even if, as the ERA suggests, such mistakes affect a small proportion of the millions of bills that are sent out each year by energy suppliers, this would still mean a significant number of customers. Errors cannot be eliminated completely from any system, but the supply companies should make greater efforts to minimise their number, and should put in place robust arrangements for correcting mistakes quickly once they have been detected. (Paragraph 24)

Debt advice

4. The debt counselling and trust fund schemes put in place by a number of energy companies are useful and welcome. However, not all companies are doing enough. We do not wish to be prescriptive about exactly how companies achieve this, but we believe that all should give advice on managing debt, and that Ofgem should report on their compliance with best practice in this regard. (Paragraph 28)
5. We consider that all supply companies should be required to provide a benefits health check as a standard part of their fuel poverty programmes. (Paragraph 30)

Use of Pre-payment meters ('PPMs')

6. We recognise that it is more difficult and time-consuming to fit a PPM for gas supply than for electricity supply, but we are not convinced that gas supply companies are making enough efforts to fit such meters. This may be in part because of the widely-acknowledged shortage of qualified gas engineers, who have to carry out the process. Whatever the reason for the present situation, it leaves gas supply companies

vulnerable to the accusation that they prefer disconnection as a cheap and easy alternative to fitting PPMs. To rebut this argument, they need to prove that they are making more efforts to fit a PPM wherever such a payment method is appropriate for the customer. (Paragraph 36)

7. Energy supply companies have suggested in the past that they are not permitted to cross-subsidise the administrative costs associated with PPMs from other customers. We are therefore pleased to note that Ofgem has recently published a paper not only suggesting that it sees no competition problem in such cross-subsidy but also encouraging it. (Paragraph 39)

Use of Fuel Direct

8. Fuel Direct would not be suitable for every customer on benefits who owes money to energy companies. However, we agree with National Energy Action that it “could develop into an acceptable tariff option rather than [as at present] a virtually moribund payment method of last resort.” To achieve this, eligibility for the scheme should be extended to a wider range of benefits; the thrust of the scheme should be to enable customers to prevent the accumulation of debt rather than just to repay it when they are on the brink of disconnection; and the administration of the scheme must be automated and made consistent throughout the country so that the energy companies are not deterred from using it by its difficulty, complexity and expense. The DWP has, it appears, argued for years that what it was waiting for was automated payment of benefits. The soon-to-be-completed move to ACT provides an opportunity to revive Fuel Direct. We would like now to see an account from the Government of how Fuel Direct is to be improved, and a timetable for its implementation. (Paragraph 44)

Contacting customers in debt

9. It is not clear to us how many of the supply companies at present have implemented procedures for attempting to contact customers and sort out their non-payment problems, nor can we be sure of the extent to which best practice has been adopted in the industry. We therefore ask Ofgem to assure us that all supply companies have committed themselves to such a process. (Paragraph 46)
10. On the question of actual implementation of proper procedures, we are pleased to record Ofgem’s statement that it could and would impose financial penalties on companies that were not implementing debt-handling procedures properly. (Paragraph 47)
11. Ofgem’s quarterly reports on progress in its Social Action Plan provide a useful mechanism for keeping up the pressure on companies to follow their procedures. We urge any advisory bodies and charities involved in supporting customers in fuel debt—including Members of Parliament—to report to Energywatch any clear examples of failure by companies to follow adequate debt-repayment procedures; and Energywatch must notify Ofgem of any companies with poor records. (Paragraph 47)

Priority Services Register

12. In its September paper, the Energy Retail Association suggested a number of ways in which the Government could help to publicise the Priority Services Register. It proposed that health workers and providers of social services encourage those eligible to register; that information could be targeted at families on child benefit, and that leaflets on the PSR could be made available in benefit offices, doctors' surgeries, schools, and the offices of housing associations and local authorities. All of these suggestions seem sensible. We ask the Government to inform us which are being taken up. (Paragraph 51)

Applications for warrant to disconnect supplies

13. Some of our witnesses expressed doubts about whether the energy companies had exhausted all other procedures before applying to magistrates for a warrant to disconnect. If the companies' processes are as thorough and robust as they claim, then there should be little difficulty in relatively senior company officials' satisfying themselves that proper procedures have been followed in full, and signing a document to confirm this. The document would then be presented to the magistrates when the company applies for a warrant to disconnect. We ask Ofgem to inform us what progress has been made in pursuing this proposal. (Paragraph 54)

Protecting vulnerable customers

14. The rewording of the definition of vulnerability to make it clear that it extends to members of a customer's household meets the most frequently-voiced concern of our witnesses and of the respondents to the Energy Retail Association's consultation paper. However, it is not clear that even this definition would apply to many of those whose energy supplies are disconnected for debt at present. (Paragraph 61)
15. It is impossible to judge whether the staff of energy supply companies will be able to identify most vulnerable customers and subsequently prevent the disconnection of their fuel supplies. The proof will lie in the disconnection figures. Because of the length of the disconnection process, Ofgem's quarterly reports do not yet show the effects, if any, of these initiatives. We expect Ofgem to keep the situation under close review, and we recommend our successors to return to this issue. (Paragraph 64)
16. It is absurd that companies should spend time and effort in identifying vulnerable customers in order to safeguard them only for this protection to be lost if the customers change supplier. We believe that the companies should, as a matter of urgency, seek clarification from the Information Commissioner about whether the Data Protection Act prevents the transfer of this information. We hope that the Information Commissioner will be able to permit it, with safeguards against use of the data for other purposes. The comfort of customer confidentiality is of little consolation if the members of the household are freezing to death. (Paragraph 66)
17. We were told that a further problem with transferring such information was incompatibility between the supply companies' electronic data management systems. However, difficulties with transferring data on switching of supplier do not end with

the flagging up of vulnerable customers: many of the problems with billing errors that lead to the threatened or actual disconnection of supply occur when customers switch suppliers. Sorting out incompatibilities between electronic systems must form a major part of the effort to tackle the failures in the customer transfer process. Despite the expense, we believe that Ofgem should press the companies to deal with these problems expeditiously. (Paragraph 67)

18. While the ERA's latest proposals have reduced the burden which the earlier ones appeared to place on local social services offices, this has merely confirmed that the onus is on the companies themselves to identify, advise and support vulnerable customers. We are not convinced that they will be able to provide a complete safety net. However, they must try. (Paragraph 75)

Ban on disconnections

19. As the debates last year on the Energy Bill revealed, the Government accepts the supply companies' arguments that a ban on disconnection would lead to a significant rise in fuel debt. However, we endorse Ofgem's warning: if these companies are to be allowed to retain the right to disconnect supplies to customers on the grounds of debt, then they must clearly demonstrate that they have taken all practicable measures to resolve the problem earlier. They must provide more support and advice to customers in financial difficulties, particularly those in vulnerable groups, and, for gas companies, they must make much greater effort to install PPMs to avoid the need for disconnection. Moreover, they must reduce the number of billing errors, particularly in connection with the customer transfer process. Unless the industry demonstrates a serious commitment to and success in addressing these problems, we would recommend the Government to legislate to ban disconnections of domestic fuel supply. (Paragraph 79)

Formal minutes

Tuesday 1 February 2004

Members present:

Mr Martin O'Neill, in the Chair

Mr Roger Berry

Mr Richard Burden

Mr Lindsay Hoyle

Mrs Linda Perham

Sir Robert Smith

The Committee deliberated.

Draft Report (Debt and Disconnection: Gas and electricity supply companies and their domestic customers), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 79 read and agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till this day at 2.30pm

Witnesses

Tuesday 22 June 2004

Mr Allan Asher and Mr Ed Gallagher, **Energywatch**.

Mr Duncan Sedgewick and Ms Jill Harrison, **British Gas, Energy Retail Association**.

Ms Jenny Saunders, **National Energy Action** and Mr Richard Wilson, **Help the Aged**.

Mr John Neilson, Mr Dave Barnes and Mr Iain Osborne, **Ofgem**.

List of written evidence

1. Age Concern
2. British Gas
3. British Gas
4. Centre for Utility Consumer Law, University of Leicester
5. EDF Energy plc
6. Energy Action Scotland
7. Energy Retail Association
8. Energy Retail Association
9. Energywatch
10. Energywatch
11. Help the Aged
12. National Consumer Council
13. National Energy Action
14. Ofgem
15. Ofgem
16. Ofgem
17. UNISON