Promoting choice and value for all gas and electricity customers

3 June 2010

Dear Colleagues,

Debt Review report: key Principles for taking ability to pay into account

Ofgem has today published the results of its Debt Review, examining suppliers' debt policies and processes.

We are pleased that suppliers have shown a genuine commitment to improving their debt practices building on recommendations from our previous reviews in this area. We welcome the increasingly proactive approach being taken by suppliers to debt prevention and follow up.

Our monitoring shows that whilst the number of customers repaying energy debt has remained largely unchanged, the amount customers owe has risen particularly over the last 18 months. We recognise the genuine efforts suppliers have made to assist customers who are finding it difficult to manage, and that failure to do this effectively means that customers in general bear higher costs of managing debt.

Nevertheless, there is more that can be done. In particular, our review has highlighted a concern regarding whether suppliers are properly taking customers' ability to pay into account in setting debt repayment rates as required by supply licence condition 27.

Ofgem has identified a number of key Principles suppliers should take into account to ensure that they are properly and proactively taking account of a customer's ability to pay. The Principles reflect the key considerations which the Authority will look for, and take into account, along with any other relevant factors, when assessing compliance with the supply licence condition.

You may be aware that Ofgem hosted a roundtable event on 26 April with suppliers and other stakeholders to discuss the key Principles identified in the Debt Review. The event was hosted jointly with Citizens Advice following the publication of their best practice in debt collection report 'Do the right thing'. We are supportive of Citizens Advice's proposals for improving debt practices.

We welcome the commitment given to the key Principles by your staff at the roundtable event. This is an important first step but suppliers need to now consider how they introduce these Principles into their day to day work. We understand that ERA will be meeting with suppliers to discuss how they will make this happen.

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We want to hear from your teams' again in six months time to establish what progress has been made to embed the key Principles.

This letter has been published alongside the Debt Review.

Yours sincerely,

Alistair Buchanan
Chief Executive

Enc. Key Principles for ability to pay

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Key Principles for ability to pay

The Principles reflect key considerations which the Authority will look for, and take into account, along with any other relevant factors, when assessing compliance with supply licence condition 27.

Having appropriate credit management policies and guidelines

- *Allowing for customers to be dealt with on a case-by-case basis*
- *Linking staff incentives to successful outcomes not repayment rates*

Making proactive contact with customers

- *Making early contact to identify whether a customer is in payment difficulty*
- *Regularly reviewing methods of proactive contact to ensure they meet the needs of customers*
- *Using every contact as an opportunity to gather more information about the customer's situation*

Understanding individual customer's ability to pay

- Providing clear guidance and training for staff on how to elicit information on ability to pay and monitoring the effectiveness of this
- Making it easier for customers to raise concerns
- Making full use of all available information
- Proactively exploring not only payment amount but appropriate payment methods

Setting repayment rates based on ability to pay

- Where default amounts are set it should be made clear that these are guidelines only and in any event the levels should be reasonable
- Ensuring all available information is obtained and taken into account including the customer's circumstances identified on the warrant visit or when installing a PPM on a warrant
- Not insisting on substantial upfront before reconnection.

Ensuring the customer understands the arrangement

- There must be clear communication with the customer which allows them to understand:
    - how much they are repaying each week;
    - when the debt will be repaid; and
    - what to do if they experience difficulties.
    - For PPM customers this includes explaining that debt will be recovered regardless of usage (eg over the summer).

Monitoring of arrangements after they have been set up

- Individual arrangements must be monitored:
    - for credit customers' broken arrangements;
    - and for PPM to check whether it is being used initially and on an ongoing basis.
- There should be monitoring of agreed repayment rates across staff using call listening and other techniques to encourage a consistent approach
- Monitoring of failed arrangements to understand whether inappropriate rates are being set
- Monitoring of overall repayment rates and recovery periods to understand trends.

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