



Office of Utility Regulation

Review of Guernsey Electricity Limited's approach to billing domestic customers

Consultation Paper

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1. Introduction

The issue of how consumers are billed and their options for paying for their electricity service have been the subject of review in recent times in other jurisdictions. Over the past number of months the Office of Utility Regulation (“OUR”) has received a number of queries from members of the public in relation to Guernsey Electricity Limited’s (“GEL”) approach to billing domestic customers.

The Director General (“DG”) is issuing this consultation which is primarily aimed at households - a key customer group of GEL - to assess whether there is scope to improve any aspect of GEL’s current approach to billing.

This consultation aims to address all aspects of GEL’s approach to billing including:

- the way in which customers could pay their bills;
- the way in which the level of monthly standing orders is determined;
- GEL’s requirement for deposits from certain groups of customers; and
- GEL’s disconnection policy.

The main objective of this consultation exercise is to assess whether customers, and in particular domestic customers, are encountering any problems either directly or indirectly as a result of GEL’s approach to billing.

The DG would also like to hear respondents’ views on GEL’s practice to require deposits from certain groups of customers, such as tenants in fully furnished and part-furnished accommodation, and if these customers would like to pay their bills quarterly rather than making regular payments for example by monthly standing order. The DG notes that other utility providers in Guernsey, such as Guernsey Water and the telecoms companies, do not require deposits in these circumstances nor does it seem to be common practice in the UK.

The DG would like to thank GEL for its co-operation and openness to date in assisting with the provision of information to enable this consultation to be as informed as possible. Based upon the responses to this consultation, the DG will consider whether any OUR guidance on billing matters is required.

This document does not constitute legal, technical or commercial advice; the Director General is not bound by this document and may amend it from time to time. This document is without prejudice to the legal position or the rights and duties of the Director General to regulate the market generally.

2. Structure of this Paper and Process

2.1 Structure of this Paper

This consultation document is structured as follows:

- Section 3 describes the legal background and regulatory framework in Guernsey;
- Section 4 summarises GEL's approach to billing;
- Section 5 summarises the electricity billing arrangements for domestic customers in the UK and the Ofgem' investigation which was recently concluded, it also sets out some of the differences between GEL and the UK electricity suppliers;
- Section 6 presents a number of questions on which the DG would like to hear respondents' views; and
- Section 7 sets out the next steps.

2.2 Procedure and Timetable

Responses to this document should be submitted in writing and should be received by the OUR before 5.00pm on Monday 19th October 2009. Written comments should be submitted to:

Office of Utility Regulation,
Suites B1 & B2,
Hirzel Court,
St. Peter Port,
Guernsey, GY1 2NH

Or by email to info@regutil.gg

All comments should be clearly marked: "GEL's Approach to Billing Domestic Customers".

In accordance with the OUR's policy on consultation set out in Document OUR 05/08 – "Regulation in Guernsey; Revised Consultation Procedures Information Paper" - non-confidential responses to the consultation will be made available on the OUR's website (www.regutil.gg) and for inspection at the OUR's Office during normal working hours. Any material that is confidential should be put in a separate annex and clearly marked so that it can be kept confidential. The DG regrets that he is not in a position to respond individually to the responses to this consultation.

3. Legal Background and Regulatory Framework

3.1 Legal Background

The legislation governing the Guernsey electricity market came into force in February 2001. The legislative framework underpinning the regulatory regime for the electricity sector is governed by:

- The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (the “Regulation Law”);
- The Electricity (Guernsey) Law, 2001 (the “Electricity Law”);
- The Electricity (Guernsey) Law 2001 (Commencement and Amendment) Ordinance 2001; and
- States Directions to the DG adopted by the States of Guernsey (Billet D’Etat No. XVIII 2001, pages 1263 to 1264).

3.2 Regulatory Framework

The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 established the Office of Utility Regulation and sets out the overall functions and objectives of the Director General. Part II, Section 2 of the Regulation Law sets out the general duties that the DG must have regard to when exercising his duties and functions within all markets that are regulated by OUR.

Under this Law, the DG has the power to examine and if deemed necessary, to direct a change to the charging arrangements undertaken by GEL in order to protect consumers.

The Law places a duty on the DG to protect the interests of consumers and other users in the Bailiwick in respect of the prices charged for, and the quality, service levels, permanence and variety of utility services.

4. GEL's approach to billing customers

4.1 Options to pay bills

Under GEL's current billing policy, customers can pay their bills in the following ways:

1. Fixed monthly Standing Order (with the amount being set by GEL);
2. Quarterly Payments – paid via cheque in the post, credit/debit cards at the GEL Cash Desk, by telephone, online through GEL's website or via direct debit (but certain customer groups will have to pay a deposit to qualify for this method);
3. Regular Payments (this needs to be pre-arranged with a GEL Credit Controller); or
4. Pre-Payment meter (which is a pay-as-you-go system for electricity usage).

4.1.1 Monthly payments by Standing Order

Most customers (approximately 19,400 customers) in Guernsey pay their bills by monthly standing order. GEL determines the amount of the standing order. If customers believe that this amount is inappropriate then it is up to the customer to contact GEL and seek to have the amount changed. Similarly, if GEL requests an increase in the standing order amount, the customer is required to pay this unless he is able to persuade GEL otherwise. If no agreement can be reached the customer has the option to follow the dispute procedure set out later in this chapter.

Discount of 2 %

Subject to some caveats, customers who pay by monthly, such as by standing order, receive a 2% discount. The caveat is that "the payment is set at the required level".

GEL has informed us that:

"A customer will continue to benefit from the 2% discount unless they fail to maintain their payment (...) on an on-going basis, or they obtain agreement with GEL that an increase requested is not necessary".

If GEL, as part of its review of a customer's account, requests a customer to increase his or her payments and the customer does not wish to do so, then GEL removes the 2% discount and moves the customer on 'a normal quarterly arrangement'. In such a situation GEL requires certain customers to pay a security deposit, even if the customer has no outstanding payments.

GEL's approach to determining the level of the standing order

The amount which a customer paying by standing order is required to pay each month is determined by GEL. According to GEL this amount is set on a per customer basis. In part it depends on whether the customer is a new or existing customer.

In order to determine the level of payment for any new customer or for those who have moved premises, GEL uses the following approach:

- the annual consumption recorded on the existing meter in the property is totalled based on the *previous* tenant's usage;
- if the amount falls *below an average annual usage of 6,000 units*, then this average of *6,000 units* is used;
- if the amount exceeds 6,000 units, then the *higher meter reading figure* is used;
- then, in both cases, the annual units are calculated using the current unit price according to the customer's chosen tariff;
- this figure is then added onto any standing charges included within the customer's chosen tariff;
- that figure is then divided by 12 to give the monthly payment charge.

Thus, if average annual usage was below 6,000 units (say 4000 units) then GEL will still determine the monthly payment based on 6,000 units. However, if the annual usage was in excess of 6,000 units (say, 7,200 units) the payment level would be based on the actual usage (in this example, 7,200 units).

It is clear that this approach is quite asymmetrical. According to GEL, this approach reduces the risk that a customer will face higher bills in future because he has underpaid at the start of his contract. This might be so, but arguably, this could be easily addressed by ensuring that an actual reading is obtained for at least the first bill (this could be a reading by the customer) to give GEL some initial information on the customer's electricity consumption.

In practice, if the customer does not consider that the level of payment determined by GEL would reflect his consumption pattern it is up to the customer to persuade GEL to change the amount or to initiate a dispute procedure as set out later in this chapter. GEL has told us that it welcomes customers contacting GEL in these circumstances and that it often changes the amount as a result.

Review of the standing order amount

GEL reviews the accounts of existing customers after every *actual* meter reading. In practice this means that customers with meters other than AMR¹ would receive three out of their four annual bills based on estimates. It is then up to the customer to obtain an actual reading and contact GEL with this reading to receive a bill based on actual consumption if he wishes to do so.

¹ AMR refers to Automatic Meter Reading, customers with these meters installed have their billing information (e.g. electricity consumption) directly sent to GEL's central computer. All their bills are therefore based on actual consumption and there won't be any need for meter readers to visit the premises of these customers to obtain readings or for the customer himself to obtain a reading.

For customers with an AMR meter all four quarterly bills are based on actual readings (as consumption information is recorded centrally and hence there is no need for a meter reader to visit the premises).

Underpayments

When calculating the amount to be paid by standing order in the future, GEL assesses the customer's annual consumption and adds any outstanding amount (e.g. for usage in excess of the previously pre-determined standing order amount). Should the result of the calculation be in excess of 20% of the existing payment, then GEL requests the customer to increase its monthly payments.

GEL has informed us that:

“Should the customer not wish to increase their standing order arrangement, they are invited to discuss the matter with someone in GEL’s customer accounts section. If the payment falls below the assessed level without the agreement of GEL, then the discount is withdrawn and normal terms of credit are applied”.

In practice, this seems to mean that in first instance GEL removes the 2% discount - which the customer otherwise would have had as a customer paying by standing order. Furthermore, if the customer has used more electricity than covered by its standing order payment up to that date, and the customer does not accept an increase in their standing order as proposed by GEL in the time set out by GEL, then GEL will issue a reminder to the customer as for any normal quarterly collection procedure. Following this reminder GEL would consider such a customer to be a ‘customer in default’ if the outstanding payment was not received in the required time. GEL’s approach to dealing with customers in default is set out later in this chapter.

Overpayments

GEL automatically refunds any credit balance above a minimum/default level. This is currently set at £20.00 provided that the meter is read (either by GEL or the customer). This level can alternatively be set to zero or to a level requested by the customer.

4.1.2 Quarterly payments

Apart from the option to pay by monthly standing order, customers might opt to pay their bills on a quarterly basis using one of the following methods:

- at the Barclays High Street Branch using a Bank Giro Credit slip (attached to the bottom of each customer statement);
- via cheque in the post;
- by credit/debit card at the GEL Cash Desk;
- by telephone;
- online at GEL’s website; or
- via direct debit.

Customers who pay on a quarterly basis are billed on their *actual consumption* (this applies to all customers with an AMR meter and also to customers who do not have an AMR meter but whose meter has been read by a GEL meter reader) or on their *estimated consumption*. Customers who receive an estimated bill could contact GEL with their own meter reading to receive a bill based on their actual usage.

Currently approximately 400 customers pay their quarterly accounts by direct debit. According to GEL paying by direct debit is especially suitable for customers who have AMR meters as they will be billed based on actual usage rather than estimated consumption. At present, 20,592 out of GEL's 28,000 customers have had an AMR meter installed. Nevertheless, GEL still only provides the direct debit payment method on an 'as requested basis'. We note that this payment option is not included on GEL's website.

Deposit payments

GEL requires certain groups of customers who wish to pay their bill on a quarterly basis to pay a security deposit to GEL.

Types of customers required to pay a deposit

GEL insists on security from the following categories of customers:

- customers in furnished and part-furnished rented accommodation;
- properties where the supply is registered as non-domestic; and
- customers with a record of late payments.

GEL considers these specific groups of customers to be at a higher risk of not paying their bills. According to GEL there is a significant correlation between the level of furnishing in rented accommodation and credit risk posed by the customer. In GEL's view, this is due to the fact that it is easier for customers in part-furnished or fully furnished rented accommodation to leave the property without having to arrange the removal and relocation of their furnishings to their next property. GEL is therefore of the view that customers in fully or part-furnished rented accommodation are more likely not to pay their bills.

GEL believes its policy of taking account of part-furnished/furnished accommodation is consistent with the methodology adopted by credit scoring agencies in the UK. GEL argues that this policy protects both GEL and other customers from the default risk posed by these customers and that this policy has been instrumental in keeping bad debts to a minimum.

GEL has not been able to submit any data such as default statistics showing the aforementioned correlation between the customer's type of accommodation and bill paying record to the OUR. According to GEL it does not keep this information.

The DG notes that neither Guernsey Water nor the telecoms companies require customers to pay deposits purely because they happen to live in part-furnished or fully furnished rented accommodation. Arguably, there might be some circumstances which could justify a deposit requirement on new or existing customers., For example

for those with a record of late payments in order to reduce the risk of the company incurring bad debts. However, it would have to be clear what such a record entails (i.e. the number of late payments and the time period in which this occurred).

Level and duration of security deposits

GEL determines the level of the security deposit. According to GEL's procedures the deposit is set at five twelfths (5/12) of the customer's annual consumption or previous regular payments such as a standing order or weekly payments; or any proposal by the customer which in GEL's view provides it with sufficient security against the customer not paying his bills. For new tenants, this means in practice that their level of security is likely to be based on the usage of the previous tenants.

GEL will keep this deposit for up to three years (or shorter if the customer, for example, terminates the contract, e.g. leaves Guernsey). If the customer has met all his payments during the three year period without default then after three years the customer is eligible for a refund of his deposit. Customers who have paid a deposit will receive interest based on the Bank of England average base rate every six months and any accrued interest following repayment of the security deposit.

According to GEL only 86 customers in furnished accommodation have decided to pay a cash deposit and for approximately half of these customers the deposit is below £50. However, as previously outlined, deposits are not required if the customer chooses to pay via the standing order method of payment. This might explain why so many customers pay by standing order in Guernsey compared with, for example, in the UK. In Guernsey, the customer who pays a deposit would effectively lose access to his deposit for a period of up to three years (or shorter if terminating the contract earlier).

4.1.3 More Frequent Payments Through a Payment Book

It is also possible for customers to pay their bills more frequently. For example, some customers might want to pay their bills weekly or fortnightly. To qualify for this payment method customers have to come to an agreement with a GEL Credit Controller. The amount which the customer has to pay is pre-determined by the GEL Credit Controller. The customer is issued a payment book in order to keep track of payments. Payment is accepted at GEL's cash desk or at Barclays Bank.

4.1.4 Pre-Payment Meters

According to GEL, pre-payment meters are most suited to low income households which may have difficulty meeting monthly or quarterly bill payments. This type of payment is based on a 'pay-as-you-go' system for energy use. Thus if the pre-payment meter is not charged, the customer does not have access to electricity. In extreme situations, this can mean that during cold spells customers might not be able to heat their accommodation due to having inadequate funds to charge the pre-payment meter.

Pre-payment keys can be charged at the GEL cash desk, Landes du Marche Garage, Total Service Station at the Ville au Roi, Checkers Supermarket at Admiral Park, the Pollet and the Island Shoppers on the Bridge and Collings Road.

4.2 Customers in Payment Default and the Disconnection of Supply

Disconnection of supply is a measure of last resort when dealing with customers that are in default. According to GEL, in the past five years only five customers have been disconnected out of a customer base in excess of 28,000.

Customers who do not pay their bill by standing order or one of the other regular payment methods (including payment books, direct debit, etc.) are given 21 days (day 21) to pay their bill. If the customer hasn't raised any queries in relation to the bill which remain unresolved and hasn't paid the bill either, then a reminder/final notice will be sent after a further seven days (day 28). If the account has still not been paid 14 days later (day 42) then the customer is in default. GEL then sends a representative to the customer's house to try to resolve the matter. At this point, the supply will not be disconnected. The supply will not be disconnected until the customer has received a formal notice signed by the GEL Finance Director and delivered by hand. This notice will state the date from which the electricity supply will be terminated.

At this point, disconnection can still be avoided by phoning GEL and agreeing to a payment plan from one of the earlier described means of payment. If no mutually agreed solution can be reached, GEL will offer the installation of a pre-payment meter rather than a credit meter (providing that it is safe and practical to do). A pre-payment meter will not be installed unless the customer has been notified in writing.

If a customer's account goes into default twice in a 12 month period the customer will be asked to provide security against future supply. Providing the payments are made on time and at a level agreed by GEL there will be no requirement to pay a deposit. However, should the agreed method of payment fail, then GEL will request a deposit based on five months usage.

The DG notes the low levels of disconnection by GEL and commends the company on being in line with UK best practice and adopting the approach that it does in dealing with such cases.

4.3 Payment disputes

4.3.1 Customer Complaint Process

Utility service providers licensed by the OUR are subject to standard service terms and conditions. Therefore, if a GEL customer becomes dissatisfied with the service he receives from GEL and wishes to make a complaint, then he should in the first instance contact GEL to request a resolution to his complaint. GEL has a code of practice which sets out how to make a complaint, the procedures it has in place for

handling the complaint and the timeframe in which it should be resolved. GEL's code of practice can be found at www.electricity.gg.

4.3.2 Unresolved Complaints

If the complaint remains unresolved either because the customer is dissatisfied with the outcome or the target time in the code of practice has not been met, then the customer could take his complaint to the Trading Standards Service ("TSS") at the Department of Commerce and Employment who will act as an impartial body and attempt to find a fair outcome for all the parties involved. The TSS can be contacted via email at ts@commerce.gov.gg or in writing to:

The Consumer Advisor
Trading Standards Service
PO Box 459, Raymond Falla House
Longue Rue
St Martins
Guernsey
GY1 6AF

If the customer remains dissatisfied after TSS's attempts to resolve the matter, the customer could refer the matter onto the OUR. In this instance, the TSS will submit a report to the OUR, the complainant and GEL and the OUR will progress the complaint in a manner it considers appropriate.

Nothing in this scheme is intended to prevent a customer from seeking resolution through the courts.

4.4 Information on the payment of bills

Details of the available methods of payment can be found online at GEL's website (at www.electricity.gg under the 'public info/code of practice/payment of bills' section) or alternatively through the following hyperlink –

<http://www.electricity.gg/publicinfo/codesofpractice/paymentofbills.asp>.

GEL has informed the DG that it also rotates the information on the back-page of customer statements. There are four different versions of back-page information which are provided to the customer by rotating the information on the back of the bills.

5. Electricity billing arrangements for domestic customers in the UK

5.1 UK electricity market

In the UK, electricity supply has been fully liberalised and customers are therefore free to choose their supplier. Retail price controls have therefore been abolished in the UK. The prices charged by electricity companies to households are not determined by the regulator but result from competition between electricity suppliers.

5.2 Options in the payment of bills

Electricity suppliers in the UK offer their customers a number of different ways to pay their electricity bills. It is up to the customer how they want to pay their bill and no distinction is made between customers who own their own property/live in unfurnished rental accommodation or live in partially or fully furnished rental accommodation.

In the UK, approximately 14.7 million customers (gas, electricity and dual fuel) pay by direct debits, compared to 13.8 million customers who use standard credit (whereby a customer pays upon receipt of a bill and typically includes a wide range of payment mechanisms – including cash, cheque, credit or debit card). In addition, 5.4 million customers utilise pre-payment meters whereby customers are required to pay for energy in advance of use or the supply of energy to the premise is inhibited.

5.3 Ofgem's Direct Debits Investigation

In March 2009, the Office of Gas and Electricity Markets (“Ofgem”), the electricity regulator in the UK, published its Direct Debits Arrangements Report and Consultation paper².

This report presents Ofgem's investigation into the 1,000 complaints received from various parties since the large increases in energy prices during the second half of 2008. The investigation was triggered by a sudden surge of complaints in relation to supplier's direct debit systems. The complaints raised concerns involving all of the “big six” energy suppliers³ and were with regards to the significant price increases consumers were being asked to pay via their direct debits which had increased by large percentages and, in the view of customers, seemed out of proportion to the increased energy prices.

² Ofgem Direct Debit Arrangements Report and Consultation, 27 March 2009, <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=2&refer=Consumers/CCI>.

³ The “Big Six” energy suppliers are British Gas, EDF Energy, E.On, Npower, Scottish Power and SSE.

5.3.1 Issues surrounding the system of Direct Debits in the UK

In its investigation, Ofgem was unable to readily assess how direct debit levels were determined. It emerged that energy companies did not appear to record or monitor such information. Ofgem found that the precise way in which direct debits were set was not clear and the explanations given to customers (who had recently been subject to revised payment levels) were inadequate.

Ofgem noted that suppliers should be able to explain to customers on an individual basis how they arrived at the amount the individual customer had to pay. It appeared that most companies were not able to provide this information. When a customer contacted customer service, the staff were often unable to justify the change. This resulted in revised payment levels being established without the customer understanding the full implications. For example, there was some evidence that payments were often lowered following a complaint from a customer but then significantly increased a few months later. When the payment was lowered it was not explained that there was the risk of a potential build up of debt resulting in significantly higher bills later on. Ofgem also found that there were significant differences and lack of clarity on how credit was being refunded if customers had been overpaying their supplier.

5.3.2 Ofgem's Conclusions

Ofgem found no evidence of energy companies deliberately attempting to increase cash flow through unjustified increases in direct debit levels or of systematic errors. It noted that retail prices had moved in line with wholesale prices and margins had remained consistent. Ofgem also found supplier's basic principle to be sound whereby increases had represented the forecast usage multiplied by the tariff with an inclusion for the adjustment of debit or credit.

However, Ofgem did find that the basis for the forecast usage was unclear and dependent on complex algorithms in suppliers systems and that weakness in supplier's processes had exacerbated the price volatility. It also became clear that many of the complaints had arisen primarily because the supplier had not adequately explained the increase. Ofgem therefore concluded that transparency and communication of information needed to be improved.

5.3.3 Ofgem's Best Practice Recommendations

Ofgem has outlined what it considers to be best practice with regards to various areas in relation to supplier's charging arrangements. It is the expectation that suppliers should look to adopt the following recommendations as soon as possible.

(1) Frequency of Re-Assessment

Frequent assessments of direct debit levels ensure that customers are on track in paying the correct amount for their actual energy consumption. This would reduce the likelihood of large credit/debit balances building up on the customer's account.

Suppliers should also aim to conduct re-assessments based upon particular triggers e.g. after actual meter readings. Ofgem found that those suppliers who had the least frequent re-assessments (e.g. only once a year) were the ones with customers with the largest spread of credit/debit balances (see Table 1).

Table 1 Frequency of Direct Debit Re-assessment⁴

	British Gas	EDF	E.On	NPower	Scottish Power	SSE
Frequency of Direct Debit Reassessment	Every 6 months	Every 6 months	Annually	Every 6 months	Quarterly	Annually

(OUR 2009, UK Electricity Suppliers websites)

(2) Meter Readings

Ofgem recognised, that given the size of the geographic areas in which electricity suppliers operate, it is difficult for suppliers to obtain actual meter readings on a frequent basis. However, it noted that supplier practices varied widely both in terms of the frequency of attempted meter readings and the extent to which the supplier encouraged customers to read the meter themselves.

Most suppliers allow customers to provide their own readings over the telephone; however some suppliers did not clearly prompt this on customer bills and other forms of communication with customers. In fact, there was some indication that some suppliers may ‘quarantine’ these readings where they do not tally with meter readings by the supplier. Ofgem urges all suppliers to encourage customers to submit their own meter readings in order to ensure direct debit payments are accurate.

(3) New Customers with no billing history

When setting new direct debit levels, Ofgem urges suppliers to ensure they are using the best information available to set appropriate payment levels. For example, Scottish Power bases estimates on information such as the size of property and the number of radiators. Customers are also encouraged to provide accurate meter readings and information on past usage.

(4) Ofgem’s assessment upon how well suppliers communicate

Ofgem urges all suppliers to improve transparency and communication levels with customers. This includes:

- ensuring customers receive more informed individual explanations as to the basis on which their direct debit payments have been reassessed;
- suppliers to provide clear explanations of how direct debit works, including new customers who move onto direct debit schemes and also to include clear explanations that payments are based on forecast usage;

⁴ As set out previously, GEL reassesses the customer’s payment level on an annual basis unless the customer has had an AMR meter installed.

- suppliers to notify customers of revised payment levels, and suppliers to also make it clear that customers are free to contact them to discuss concerns; and
- customer service staff to have easy access to the necessary information to enable them to clearly explain any changes to customer accounts. Staff also need to clearly explain any future implications in the event the direct debit level is reduced. All such communications should be followed up in writing.

(5) Policies on the Refund of Credits

Ofgem states that it expects suppliers to carefully examine their refund policies to ensure credits are not being unreasonably withheld and that the grounds on which refunds will be made are clearly explained to customers.

5.3.4 Ofgem's Proposals Going Forward

In addition to the Best Practice Recommendations which suppliers have agreed to implement, Ofgem decided that further action was required to ensure improved transparency, better quality of information provided to individual customers and assurance that customers are treated fairly. Ofgem indicated that it was considering the introduction of a new licence condition in each electricity supplier's licence.

In August 2009, Ofgem indicated⁵ that it intends to introduce a specific licence condition that would require suppliers' calculations of direct debit payments to be more soundly based, transparent and clearly explained. Suppliers will also need to be able to justify why they are holding onto credit surpluses built up by individual customers. Accordingly, Ofgem will shortly consult upon the specific wording of the proposed licence condition, with the objective that it would be in place by this winter to enable Ofgem to take action if it deems this necessary.

Furthermore, in a separate move to protect consumers, as part of Ofgem's investigation into the UK energy retail market, Ofgem is consulting on a package of measures that includes the provision of better access to information for customers via their energy bills and the introduction of new annual statements informing the customer on their energy use and how much it costs on an annual basis. Moreover, Ofgem also confirmed that a new supply licence condition banning unjustified price differences will come into force on 1 September 2009. This new condition will prevent overcharging on various services such as pre-payment meters or for customers off the gas grid. In direct response to this, suppliers have already removed more than £300 million of unfair price premiums.

5.4 Security Deposits

Although the majority of UK electricity suppliers would be able to require security deposits, as stated in their terms and conditions, in practice it is rare that they actually request customers to provide security deposits. It seems that deposits tend to be more

⁵ Ofgem Direct Debits Press Release, 7 August 2009, http://www.ofgem.gov.uk/Media/PressRel/Documents1/directdebit_7_2009.pdf.

associated with business accounts. However, one supplier, namely British Gas, does request a deposit if a new joining customer fails certain credit checks.

5.5 Customers in payment default and the disconnection of supply

UK energy suppliers follow a range of policies when dealing with customers in payment default. For example, E.On's policy⁶ for customers in default is as follows, it:

- Requests the customer to pay via another payment method;
- Removes the customer's discount that applies to the following bill;
- Requests a security deposit;
- Changes the frequency of billing;
- Fits or activates a pre-payment meter to recover any money owed (this can potentially mean the customer has to pay more for the energy actually used to make up for any outstanding amount);
- Requests a guarantor; or
- Disconnects the energy supply.

E.On also states that it may further charge for the costs associated in the recovery of the money owed. This can include the following:

- Returned cheques or unpaid direct debits;
- Visiting a property to collect they money owed;
- Obtaining a warrant;
- The fitting of a pre-payment meter; or
- The disconnection of energy supply.

British Gas⁷ on the other hand charges interest at 3% a year above HSBC Bank's current base rate if the customer fails to pay after a reminder is sent. British Gas is eligible to do so from 28 days after the original bill has been sent. Alternatively, British Gas can insist the customer has a pre-payment meter installed (at a cost to the customer), requests the customer to pay a security deposit or ultimately disconnect the supply of energy to the premise (after providing seven working days notice).

5.6 Pre- Payment Meters

UK electricity suppliers tend to be explicit in explaining that pre-payment meters are one of the most expensive payment methods. Npower's policy with regards to pre-payment meters is as follows:

- If the customer has failed credit checks;
- A pre-payment meter is already installed;

⁶ E.On UK Standard Electricity Product Terms and Conditions - <http://www.eonenergy.com/Terms+And+Conditions/Residential-Products-Terms-and-conditions/Terms-and-Conditions-Residential-Standard.htm?WT.svl=4>.

⁷ British Gas Standard Terms and Conditions - <http://www.britishgas.co.uk/products-and-services/energy/our-products/standard/terms-and-conditions.html>.

- Npower has reason to believe that someone has tampered with an existing meter; or
- The customer is in debit to Npower and thus the installation of a pre-payment meter will prevent Npower disconnecting the premise.

Npower also explicitly state that the pre-payment rate maybe set to a higher than usual rate in order to allow Npower to recover any money owed. In such cases, notice will always be given to the customer in advance.

5.7 Main differences between GEL's approach and the UK suppliers

5.7.1 Differences in operating environment

There are two main differences when comparing the environment in which GEL operates with that in which the UK electricity suppliers operate. Firstly, in the UK there is competition in supply. As a result, UK customers are able to choose their supplier. It might be expected that electricity suppliers would therefore be more customer responsive in order to maintain their customer base and reduce churn (i.e. customers moving to alternative suppliers). It also means that if customers are dissatisfied with the approach to billing of one supplier they are able to change to another supplier.

The second main difference is the significant difference in size in operating areas which, amongst other things, makes it more costly for UK suppliers to frequently read customers' meters. In spite of this, most UK suppliers review customers' consumption patterns more frequently than GEL reviews the consumption patterns of its non-AMR customers.

5.7.2 Differences in billing practices

When comparing GEL's approach to billing with that of the UK electricity suppliers, two specific differences stand out, namely:

- (1) The requirement for certain groups of customers to pay deposits; and
- (2) The infrequent assessment of a customer's actual electricity consumption for customers who do not have an AMR meter.

The DG considers that GEL needs to provide a clear justification to treat certain groups of customers differently, as this effectively reduces these customers' choice on how they pay for their electricity usage (by making the quarterly payment option more costly due to the deposit requirement).

The DG considers that there is no reason why customers' consumption patterns from customers who do not have AMR meters installed should necessarily only be assessed on an annual basis. It is our understanding that GEL currently writes to customers every quarter in advance of an estimated bill being sent to request that the customer

provides a meter reading. GEL has also informed us that when an estimated bill is sent to the customer, the customer is again asked to provide a meter reading rather than having their bill based on an estimated figure. The DG considers that it is important for GEL as well as customers to ensure that bills accurately reflect energy consumption thus preventing customers from significantly underpaying or overpaying compared with actual consumption levels.

6. Questions for respondents

In view of the issues identified above, the DG is seeking feedback from GEL's customers and other interested parties on the degree to which changes or improvements may be appropriate and whether there are any specific issues they would like to see addressed. The DG therefore would particularly like to have respondents' views on the following:

General billing experiences

Q1 Have you experienced any difficulties as a result of GEL's current approach to billing? If so, what problems have you experienced? How easy has it been to resolve these problems?

Q2 The DG would like to hear from any customers who have had difficulties paying their bills and the response they received from GEL. Did you manage to mutually agree the best way forward?

GEL's approach to determining standing order amounts and deposits

Q3 Do you agree with GEL's approach to determining standing order payments for:

- (a) Existing customers; and/or
- (b) New customers and/or people who have moved house?

Q4 Do you consider it appropriate that GEL requires specific groups of customers to pay a deposit if they wish to pay quarterly rather than by monthly standing order? Do you agree with GEL's approach to how it sets the deposit amount?

GEL's approach to different payment options, discounts and information to customers

Q5 Were you aware that you could request GEL to pay by quarterly direct debit?

Q6 If paying by standing order, have you ever requested GEL to revise the amount you pay (either upwards or downwards) and how did GEL respond?

Q7 In order to qualify for a 2% discount, you would be required to pay your bill by monthly standing order with either the payment amount being determined by GEL or to obtain GEL's agreement with a different amount. Do you consider this approach appropriate?

Q8 Were you aware that GEL rotates the billing information at the back of its billing statements and that there are four different types of 'back page' for the electricity bills? How easy or difficult have you found it to find out about different ways of paying bills and other billing information?

AMR

Q9 Do you know whether you have an AMR meter?

Q10 Customers who have had an AMR meter installed can see their actual usage (based on actual meter readings) on every quarterly bill. If you are a customer on AMR have you found that your monthly standing order amount was reviewed more often (e.g. more than once a year)? If you are an AMR customer, were you aware that all of your bills are now based on actual consumption and if so, does this influence how you consume electricity?

Q11 If you do not have an AMR meter, do you know how many of your four bills are based on estimates and do you provide GEL with actual readings to replace the bills based on estimates? If not, what are your reasons for not doing so?

7. Next Steps

Interested parties are requested to provide responses to this consultation paper by 19th October 2009. Following consideration of the responses the DG will publish details of his findings and what, if any, changes that he considers might be necessary.

ENDS