

Indicator name			Version
CRS62 Domestic debt held with energy companies for the supply of electricity and gas			31/03/16
Indicator type:	Risk/opportunity	Impact	Action
	X		
SCCAP Theme	SCCAP Objective	CCRA risk/opportunity	
Climate Ready Society	<p>S2: Increase the awareness of the impacts of climate change to enable people to adapt to future extreme weather events</p> <p>B3: Increase the resilience of buildings and infrastructure networks to sustain and enhance the benefits and services provided</p>	ENr1: Fuel poverty (people affected)	

At a glance

- Around 4.5% of all electricity and gas customers in Scotland are in debt with their energy suppliers.
- While the proportion of electricity customers in debt is falling, the proportion of gas customers is rising, and the vast majority of households in Scotland use gas for heating.
- Increasing mean winter temperatures will reduce the need for heating energy (gas), helping to reduce the number of households in debt, while also helping to offset the increase in electricity costs that are anticipated in the medium term [to 2027] as electricity-generating assets reach end of life and have to be replaced.
- Based on current evidence, any increase in cooling degree-days¹ is unlikely to be significant or widespread in the medium term [to 2027]. Where overheating does occur it will probably remain localised to particular urban dwelling types.

Latest Figure	Trend
<p>2013</p> <p>Gas:</p> <ul style="list-style-type: none"> • 91,997 gas account holders in debt (5% of the total number of account holders) • 36,311 in arrears (2% of the total) 	<p>Long-term: Downward</p> <p>Short-term: Between 2012 and 2013, the proportion of electricity account holders <i>in debt</i> or <i>in arrears</i> was flat; the proportion of gas</p>

¹ The day-by-day sum of the mean number of degrees by which the temperature is more than 22°C

<p>Electricity:</p> <ul style="list-style-type: none"> • 112,050 electricity customers in debt (4% of the total) • 41,062 in arrears (2% of the total) 	<p>account holders rose by over 7.5%, around 9,000 additional households.</p>
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Why is this indicator important?

39% of Scottish households are in fuel poverty. A rise of 4 percentage points between 2012 and 2013 brought an additional 100,000 households into fuel poverty, making a total of 940,000 in Scotland. Around 252,000 (10.5%) of these households were in extreme fuel poverty (SHCS, 2014). Fuel poverty is affected by a number of underlying drivers: fuel costs and household income, the age and type of building, and is offset by any energy efficiency measures that have been implemented. Of these, the price of fuel is the most significant driver by far (see indicator *CRS61: Number of households in Fuel Poverty*).

This indicator looks at domestic debt held with energy companies for the supply of electricity and gas as a proxy for better understanding the contribution fuel price makes to fuel poverty. Any increase in mean winter temperatures resulting from a changing climate (UKCP09, 2009) should see a reduction in energy demand for winter heating (Scottish Government, 2014), reducing the number of households in debt and helping to achieve the Scottish Government target for the eradication of fuel poverty- an ambition established in the 2001 Housing (Scotland) Act.

Related Indicators:

CRS61 *Number of households in fuel poverty*

CRS64 *Uptake of energy efficiency measures*

BB20a *Energy performance of Scottish housing stock*

What is happening now?

At the end of 2013 there were 2.61 million electricity and 1.97 million gas account holders in Scotland. Of these, around 4.5% were in debt, where *'debt'* is defined as those account holders *in debt and having a repayment plan in place with their energy supplier that is scheduled to last longer than 91 days (13 weeks)*. The proportion of gas and electricity customers with such an arrangement is broadly equal (4.7% and 4.3% respectively) equivalent to a year-on-year fall of 4% for electricity but a 6% rise for gas account-holders.

A data review conducted by OFGEM in 2012 recognised that this definition of *'debt'* failed to account for customers who had yet to set up a repayment schedule with their supplier. The category of *'in arrears'* was therefore introduced. Including this category increases the proportion of account-holders (*in debt or in arrears*) to 6.5% (gas) and 5.9% (electricity) equivalent to 128,308 and 153,112 households respectively.

Energy accounts in Scotland are more likely to be in debt than anywhere else in Great Britain (6.2% of households gas account holders and 5.7% electricity) but are also more likely than elsewhere to have an arrangement in place to repay that debt (Voronkova, 2014).

What has happened in the past?

OFGEM first provided guidance to suppliers on their social obligations to their customers in 2002. At that time there were some 2.4 million electricity and 1.7 million gas account holders across Scotland.

This number varies year on year with 2.6 million electricity and 2.0 million gas customers in 2013 (Figure 1).

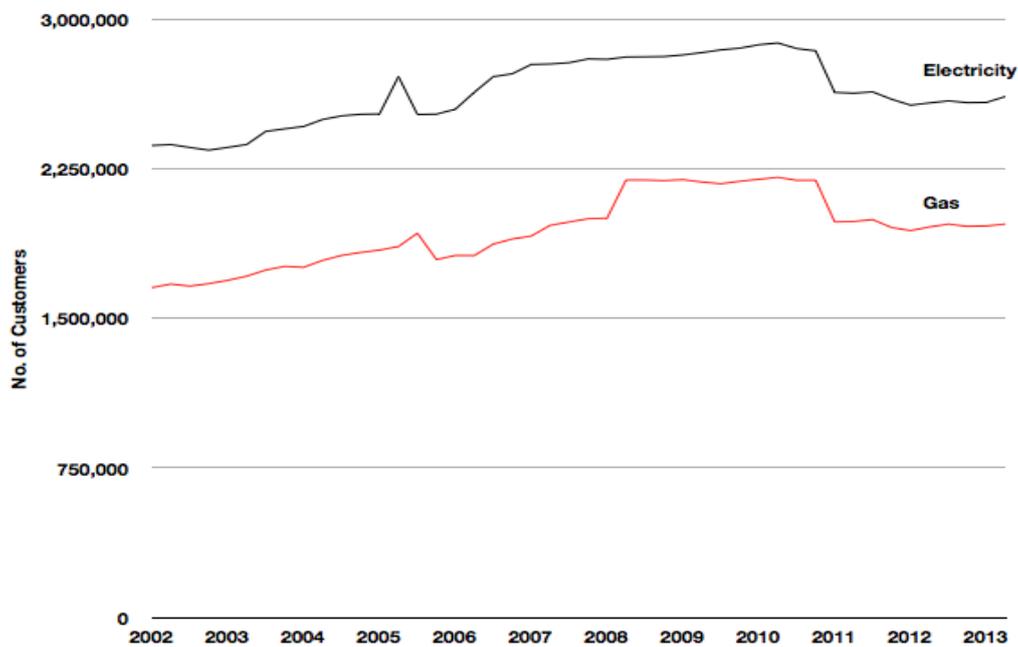
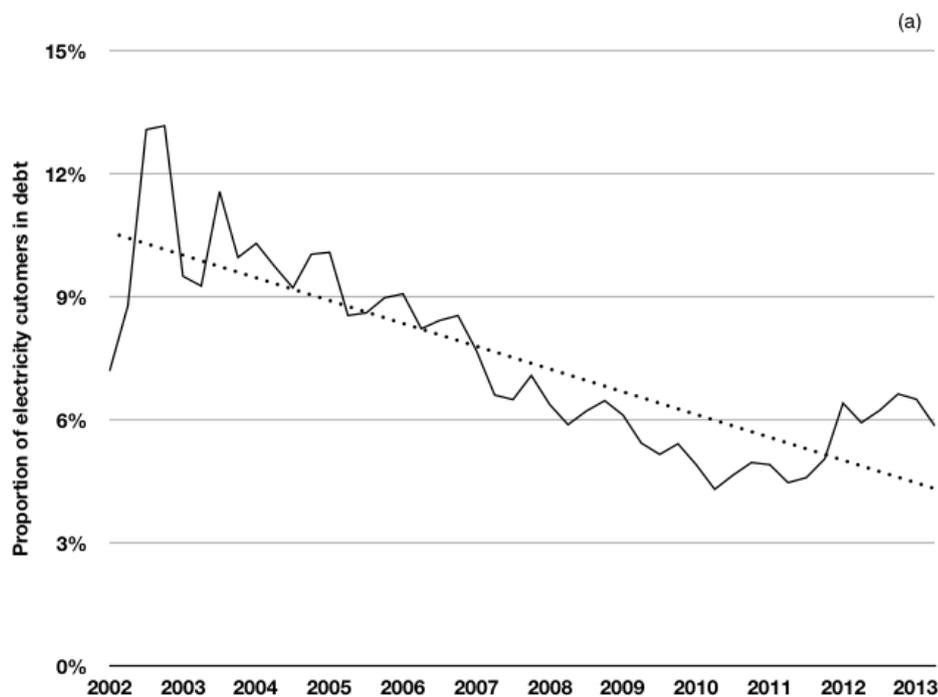


Fig 1: Scottish Electricity and Gas Account Holders 2002 through 2014 (adapted from OFGEM, 2014a)

The proportion of those customers *in debt* (and *in arrears*) appears to have been falling for both electricity and gas, at roughly equivalent rates (Figure 2).



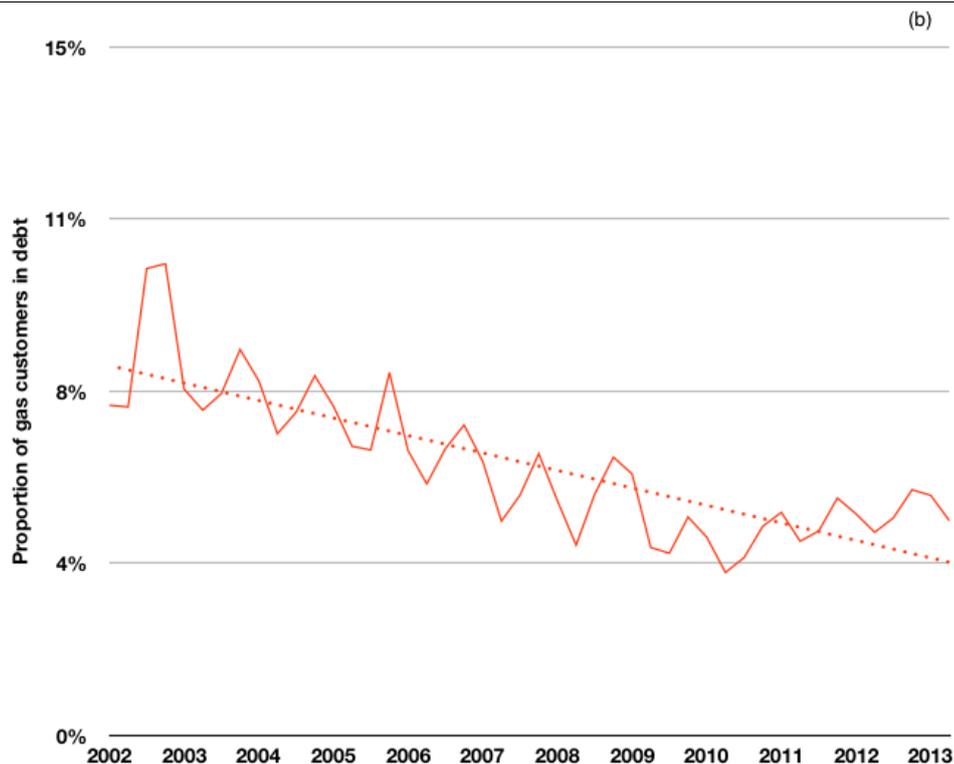


Fig 2: Debt Profile Q3 2002 through Q4 2013: (a) electricity / (b) gas (adapted from OFGEM, 2014) :: *in arrears* included from 2012)

Evidence of year-on-year changes in indebtedness reveals a slightly different picture. A 3-year moving average of the year-on-year change in the indebtedness amongst electricity and gas customers shows a fall until 2007/08 (gas) and 2009/10 (electricity) and then a steady rise ever since (Figure 3). This reflects the increase in the weighted fuel index (SHCS, 2014)², also upwards over this same period.

Under the Standard Licence (condition §27.9) for electricity and gas supply, suppliers are obliged to offer alternatives to those in debt: Pre-payment Meters (PPMs) where it is safe and practicable to do so; budget payment schemes³ and Fuel Direct⁴. Broadly, this appears to be common practice, the number of disconnections falling from a high of 171 (gas) and 184 (electricity) in Scotland in 2007/08 to just 4 (gas) and 6 (electricity) in 2013 (Figure 4).

² Table 34

³ *Budgeting payment schemes* allow customers to pay by weekly/fortnightly/twice monthly payment schemes, and flexible payment methods such as using a payment card/book to make frequent cash payments.

⁴ *Fuel direct* - also known as Third Party Deductions - is administered by the Department of Work and Pensions (DWP) to facilitate direct, fixed-amount payments for energy debt and ongoing consumption from specific social security benefits. The scheme is generally considered by suppliers and DWP to be a 'last resort' for customers who are in payment difficulty, receive social security benefit and have no other suitable method of repaying debts associated with their gas and/or electricity accounts.

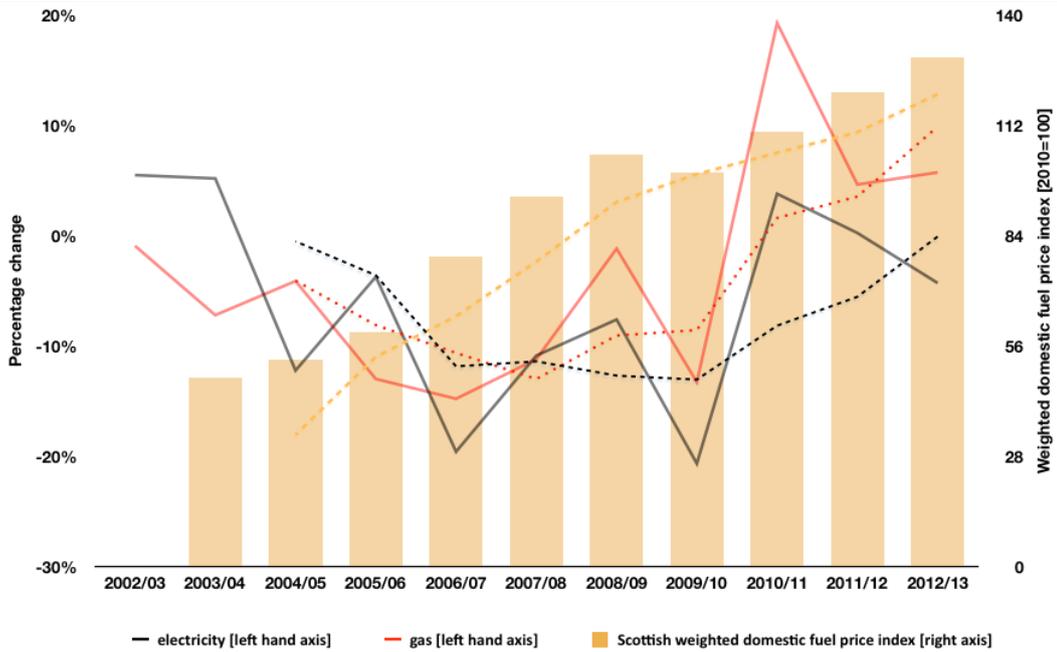


Fig 3: Year-on-year trends in indebtedness 2002, dotted lines show a 3-year moving average (adapted from OFGEM, 2014a)

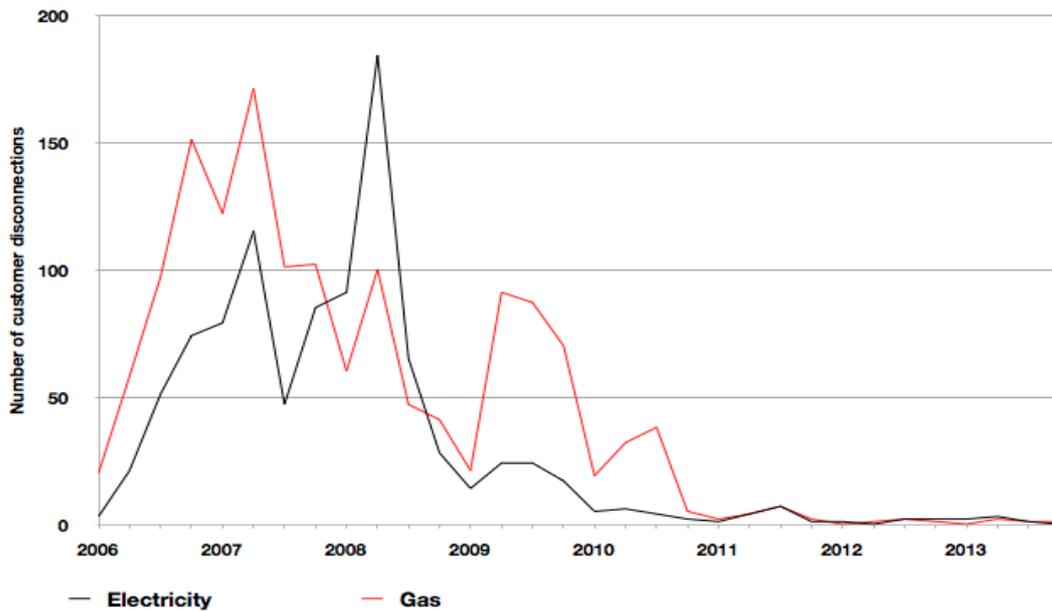


Fig 4: Number of disconnections for gas and electricity customers quarterly 2006 -2013 (OFGEM personal communication)

A similar situation exists for PPMs. In 2013 there were over half a million (551,542) electricity PPMs, up 5% on 2012, with 7% - 8% in long term debt; and a third of a million (314,659) gas PPMs, up 7% on 2012, with 11% - 13% in long term debt both down significantly on the previous decade (Figure 5).

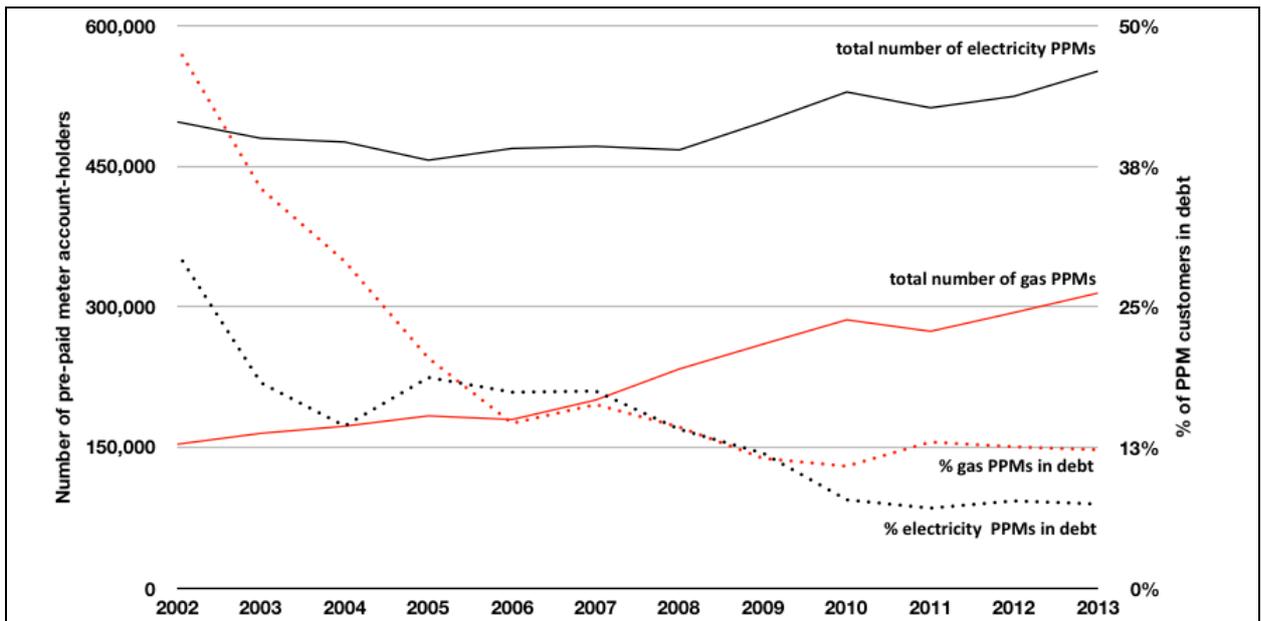


Fig 5: PPM account-holder profile 2002 – 2013 (adapted from OFGEM, 2014a)

Energy bills may be paid directly by the Department of Work and Pensions (DWP) via the *Fuel Direct* scheme from social security benefits. This is usually considered a last resort. Just over 5,000 (5,191 electricity and 5,172 gas) account holders made repayments using this facility in 2013 representing about 0.2% and 0.3% of the user population for electricity and gas account-holders respectively. These numbers have been falling for electricity account holders over the last decade with no significant trend for gas (Figure 6).

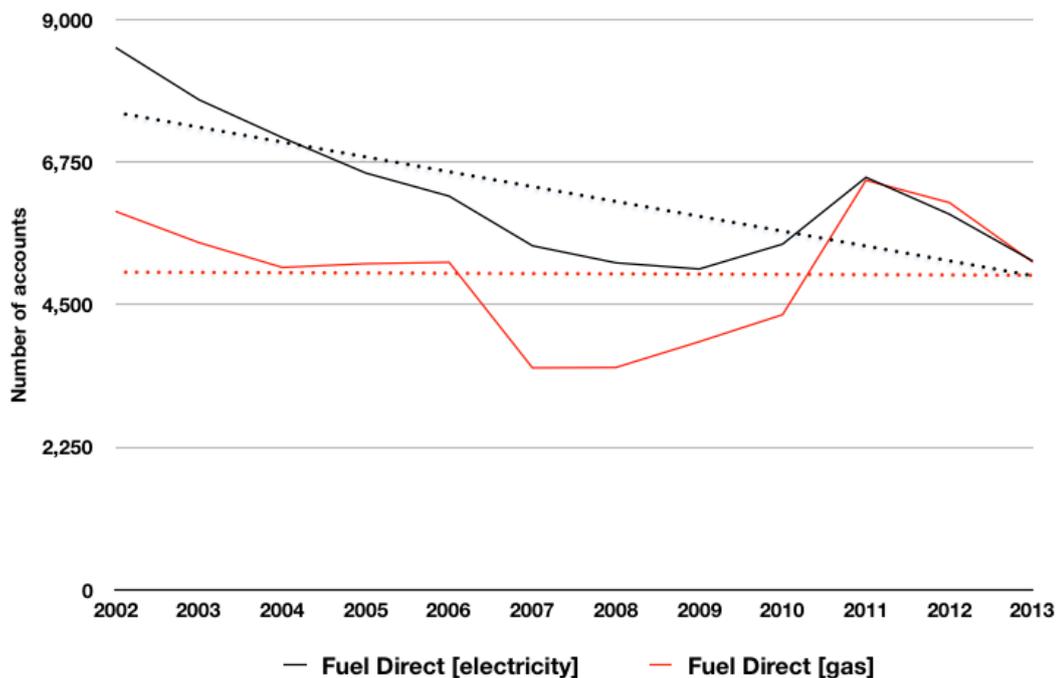


Figure 6: Fuel Direct account profile 2002 – 2013 (adapted from OFGEM, 2014a)

What is projected to happen in the future?

OFGEM provide a 'forward look' at gas and electricity prices on a rolling 12-month cycle using the Supply Market Indicator (SMI) (Figure 7). The SMI provides a breakdown of electricity and gas costs covering generating (wholesale) and distribution, social and environmental levies. The index also estimates both the average customer bill (supplier's revenue) and the supplier's pre-tax profit margin (per customer).

For electricity, the SMI forecasted a fall in total wholesale costs of 2% to January 2016 with a corresponding fall in the average customer bill⁵ of 1% to £609 p.a. using an inflation rate of 2.4%. For gas, a fall in total wholesale costs of 14% to January 2016 will result in a fall in the average customer bill⁶ of 7% to £715 using the same rate of inflation. Both estimates assume a 2% decline in consumption due to improved energy efficiency.

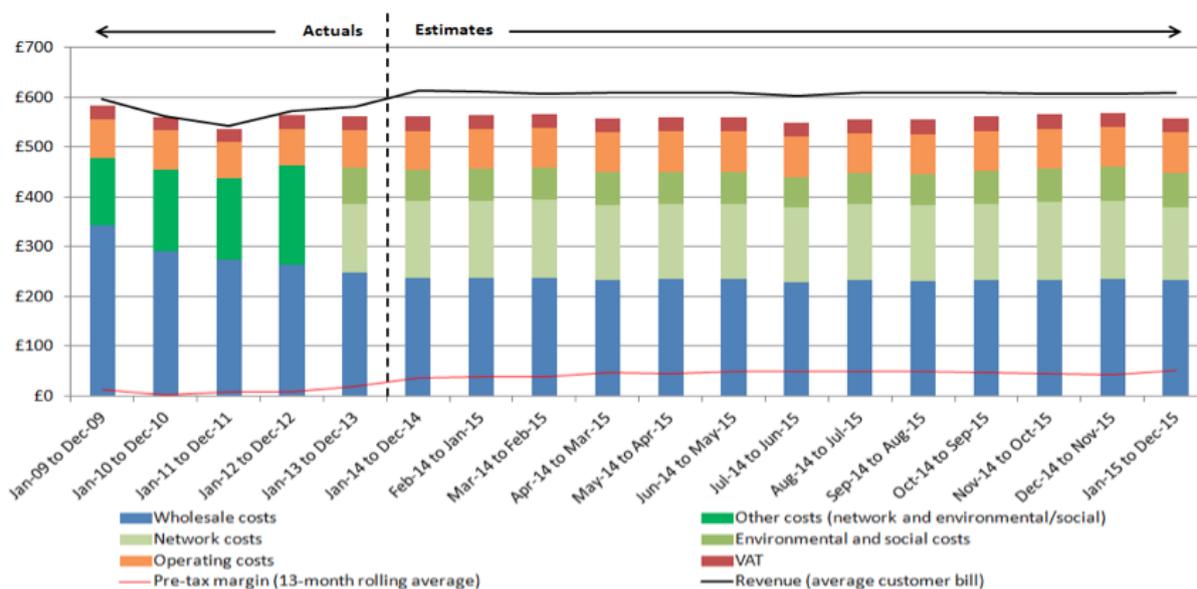


Fig 7: OFGEM Supply Market Indicator (electricity) (SMI)⁷: January 2015

Continued economic growth of around 2% is forecast in 2015 (2% - 2.2%) and 2016 (1.8% - 2.1%) (OCEA Scottish Government, 2015) with a modest fall or flat unemployment rate overall (FAI, 2014 Chapter 4: *Scottish Labour Market*). Taken together with the current state of the Scottish economy – Gross Value Added (GVA) 2.7% and unemployment at 5.5% against a UK-wide rate of 6% - it would be reasonable to expect that real wages would also rise even though they have been largely negative for the last 5 years. As noted in FAI (2014) the latest UK figures from the Labour Force Survey on Average Weekly Earnings show that a sustainable growth in real wages is not yet in sight. Provisional regional data for Scotland for 2013 suggest that “median real wages moved into positive territory at the end of that year” but this has yet to be substantiated.

Uncertainty over real wages might cause the indebtedness trend to flatten slightly, particularly for electricity where the fall in consumer bills is in any case marginal. Overall though a continued downward trend in energy account holder indebtedness in the short term is likely.

⁵ Average annual electricity consumption: 3,800 kWh (2013 figures) Rounded to the nearest 100 kWh – see OFGEM (2015).

⁶ Average annual gas consumption: 14,800 kWh (2013 figures) Rounded to the nearest 100 kWh.

⁷ source: www.ofgem.gov.uk/publications-and-updates/charts-outlook-costs-make-energy-bills

Patterns of change

Introduction of Smart Meters

The government is aiming for all homes (and small businesses) to have smart meters installed by 2020 (Voronkova, 2014). Smart meters – also known as *Advanced Domestic Meters* - provide suppliers with remote access to consumption data and patterns of use and consumers with information on the cost of consumption with more convenient and flexible billing frequency and payment arrangements. This should help suppliers prevent debt building up and offer innovative ways to manage it, if and when it does. For example, smart meters should make switching between credit and PPM methods easier and faster, and reminders could be sent to consumers when they reach an agreed budget threshold.

They also enable remote disconnection and remote switching between credit and prepayment mode, meaning that there will no longer be any need to visit premises. While this is a positive in terms of reducing operating costs, the home visit is an important check for vulnerability. Suppliers do need to ensure that it is safe and reasonably practical to put a consumer onto prepayment, and this would apply equally to smart meters.

Universal Credits

The DWP has indicated that “when Universal Credit is introduced, consumers who are no longer repaying a debt will not be allowed to use *Fuel Direct* to pay for their gas and electricity”⁸. OFGEM has voiced concerns that such a change would not be in these consumers’ interests and may make it more likely that they will fall back into debt. DWP is committed to “an ongoing review of the impact of benefits changes on indebted consumers” (Voronkova, 2014).

Mean Winter Temperature

Historically both the minimum and mean winter temperatures for Scotland as a whole rose by an average of around 1.3°C between 1961 and 2006⁹ which, together with the falling trend in heating degree days over the 45 years from 1961 – 2006, provides some evidence in support of the trend to warmer winters in the future (UKCP, 2009).

Mean winter temperature is likely to rise by between 1°C and 3°C by 2050 in the low emissions scenario and 2°C and 5°C for the same period in the high emissions scenario¹⁰ (UKCP09 (2009)). It is reasonable to assume therefore that consumer spend on energy for heating in winter months will reduce. This would have most impact for gas as the most widely used heating fuel in Scotland (SHCS, 2014).

Mean Summer Temperatures

The rise in summer temperature is in the range 1.3°C (mean) to 1.4°C (maximum) over the period 1961-2006¹¹. Annual mean summer temperatures in Scotland since 2000 have been in the range 11.9°C to 14.1°C. Mean summer temperature is likely to rise by between 1°C and 5°C by 2050 in the low emissions scenario and 2°C and 7°C for the same period in the high emissions scenario¹¹. This may have implications for air quality and overheating in certain building types, which would in turn have a significant impact on the cost of cooling energy although that remains to be quantified.

Interpretation of indicator trends

⁸ http://www.citizensadvice.org.uk/index/policy/policy_publications/er_benefitsandtaxcredits/all_change_welfare_reform.htm

⁹ <http://ukclimateprojections.metoffice.gov.uk/23036>

¹⁰ <http://ukclimateprojections.metoffice.gov.uk/23667?emission=low> <http://ukclimateprojections.metoffice.gov.uk/23667?emission=high>

¹¹ <http://ukclimateprojections.metoffice.gov.uk/23892?emission=low> <http://ukclimateprojections.metoffice.gov.uk/23892?emission=high>

The overall trend in the number of account-holders in debt to suppliers of domestic electricity and gas is downward both in absolute numbers and percentage terms. Nonetheless, at the end of 2013 nearly 6% of electricity account holders were *in debt* - 153,112 households - of whom 73% had long-term repayment plans in place while 27% were *in arrears* with no plan for repayment. This was broadly similar to the overall position at the end of 2012 although the number of those in long-term debt had reduced by just over 4% but those in arrears were up by 9.5%, around 3,500 account-holders.

The situation for gas account holders was more acute with 6.5% in debt – 128,308 households - with a similar profile for debt repayment arrangements: 71% with plans in place; 29% without. This represents an increase of over 7% (9,083 account holders) on the position in 2012 and reveals an upward trend in the number of gas account holders in debt year-on-year. Gas is used for heating by 78% of households in Scotland (SHCS, 2014).

Considered over the longer term (Figure 3) these movements suggest that the price of gas is likely to be the critical determinant of fuel price as the primary driver of fuel poverty (see indicator *CRS61: Number of Households in Fuel Poverty*¹²).

Notwithstanding improving economic conditions – unemployment down, wholesale prices down – a significant proportion of the population appear to find it difficult to budget for energy use. Suppliers' social obligation not to disconnect under the gas and electricity licencing agreements means that many of those in debt are offered PPMs. It is worth noting the success of the suppliers' social obligation in reducing the number of disconnections over the last seven years (Figure 4), demonstrating the effectiveness of well-designed interventions.

Across Great Britain as a whole, around 80% of new PPMs installed in 2013 were to manage debt¹³. In Scotland only 7% of PPM account holders were in debt at the end of 2013 but 18% of households using PPMs are classified as fuel poor (Preston et al., 2014). Citizens Advice (Vyas, 2014) research into consumers' use of prepayment meters found that PPM users are more likely to be on lower incomes than the average energy customer and many consumers like PPMs because they help them budget and avoid debt¹⁴. The cost differential though is significant with PPMs being the most expensive method of payment even once the additional 'supply costs' are taken into account – see for example the OFGEM Supply Probe (2008). Drawing on a number of different texts Preston et al. (2014) identify 5 key areas for policy intervention in delivering a competitive and accessible market, including developing a fair set of tariff offerings for PPM customers and supporting switching.

Consumer groups also have raised concerns that PPMs are being installed too early in the debt path, and that customers on low incomes are being encouraged on to prepayment meters without sufficient discussion as to the advantages and disadvantages for that customer. Payment by PPM is typically more expensive than paying by direct debit, OFGEM estimates show that annual dual fuel bills paid using prepayment meter are on average £80 higher than bills paid using direct debit¹⁵. Suppliers explain that this difference in cost between the two payment methods is due to the higher customer servicing costs.

Voronkova (2014) notes that “as more and more prepayment meters are fitted as an alternative to disconnecting consumers' supply (OFGEM) recognize(s) that it is becoming increasingly important that we monitor the issue of self-disconnection and suppliers responses to consumers in this situation. We have been working with industry and Citizens Advice to better understand the extent of this problem,

¹² This in itself creates an energy security risk, although this is outside the scope of the current indicator.

¹³ GB-wide data [Voronkova (2014) §3.10]

¹⁴ Fuel poverty data for England from the Department of Energy and Climate Change shows that PPM customers are nearly three times more likely to be in fuel poverty than customers paying by direct debit: 19% of PPM customers were in fuel poverty compared to 7% of direct debit customers who were in fuel poverty, for both electricity and gas. No equivalent data is available currently for the Scottish context.

¹⁵ <https://www.ofgem.gov.uk/ofgem-publications/87924/openletterfinalrepublished.pdf>

and how suppliers can best identify and monitor self-disconnection and help target support and advice at those in need. We have committed to working with Citizens Advice over the next year to agree a framework for reporting this information.”

Smart meters offer the most benefits to PPM customers providing real time information on energy use and price at different times of day and night, supporting decisions about the amount of energy used at any given time of day to ensure the best savings. The use of smart meters would supplement or replace other methods of monitoring energy consumption.

Energy efficiency measures resulting from a range of Scottish Government initiatives identified in the Sustainable Housing Strategy (Scottish Government, 2013a) and driven by renewable heat and electricity generation policies (Scottish Government, 2013b; 2014) are all likely to reduce the amount of energy required to maintain a satisfactory heating regime.

Limitations

1. Disaggregating (some of the) data for Scotland is not possible from the Social Obligations Reports provided to OFGEM by energy suppliers, for example: levels of debt, repayment rates and the agreed term for repayment in Scotland are not provided (in the public domain at least).
2. Supplier data does not take account of *self-limiters* – people spending a fixed amount on PPMs each month and then effectively disconnecting. Some data are being reported by suppliers on *self-disconnectors*. The statistics may need revision to take better account of these usage types (Vyas, 2014; FDS International, 2011).
3. A breakdown of indebted households by different payment types – direct debit, PPM, budget payment schemes and *Fuel Direct* payments - would strengthen the insights into the use of PPMs with a view to evaluating the benefits of replacing them with smart meters.
4. Suppliers buy their energy 18 or 24 months in advance, setting the wholesale price for electricity and gas against which forward-looking trends are based. This indicator will need to review OFGEM’s SMI prior to publication to update that data and validate the assumptions derived from the January 2015 SMI.
5. Data on the supply of other fuels are not captured by OFGEM. However, electricity and gas account for 91% of heating fuel use in Scotland with the remaining fuels being oil [6%], LPG bulk or bottled [1%] with communal heating, biomass and ‘other’ making up the remaining 2% (SHCS, 2014).

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Further information

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Appendix One: Indicator metadata and methodology

Table 1: Indicator metadata

	Metadata
Title of the indicator	CRS62 - domestic debt held with energy companies for the supply of electricity and gas
Indicator contact: Organisation or individual/s responsible for the indicator	ClimateXChange
Indicator data source	OFGEM Social Obligations Reporting Svitlana.Voronkova@ofgem.gov.uk 0203 263 9716
Data link: URL for retrieving the indicator primary indicator data.	www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations

Table 2: Indicator data

	Indicator data
Temporal coverage: Start and end dates, identifying any significant data gaps.	Q3 2002 – Q4 2013 No data gaps
Frequency of updates: Planned or potential updates	Quarterly, 6 month lag.
Spatial coverage: Maximum area for which data is available	Scotland
Uncertainties: Uncertainty issues arising from e.g. data collection, aggregation of data, data gaps	<p>The number of customers for both electricity and gas varies significantly from one quarter to the next so percentage changes have been used for trend analysis (unlike the OFGEM annual report which uses absolute numbers of account-holders).</p> <p>From the third quarter of 2012 OFGEM changed the way in which data was collected on average debt to include account-holders <i>in arrears</i>. This give a more complete picture of energy debt but requires care in comparisons prior to July 2012.</p> <p>Suppliers report on debt for Great Britain as a whole. Consequently, data cannot be disaggregated for Scotland for (a)</p>

	levels of debt, (b) repayment rates or (c) the agreed term for repayment.
Spatial resolution: Scale/unit for which data is collected	National
Categorical resolution: Potential for disaggregation of data into categories	<ul style="list-style-type: none"> • payment methods • debt profile • disconnection rates • prepayment meters • help for vulnerable customers • levels of debt [GB scale only] • self-disconnection/limitation [no data currently].
Data accessibility: Restrictions on usage, relevant terms & conditions	Publicly accessible and free Crown Copyright.

Table 3 Contributing data sources

<p>Contributing data sources</p> <p>Data sets used to create the indicator data, the organisation responsible for them and any URLs which provide access to the data.</p>
<p>OFGEM Supplier Performance on Social Obligations www.ofgem.gov.uk/about-us/how-we-work/working-consumers/supplier-performance-social-obligations</p> <p>Scottish Government, Scottish Housing Conditions Surveys www.scotland.gov.uk/Topics/Statistics/SHCS</p>

Table 4 Indicator methodology

<p>Indicator methodology</p> <p>The methodology used to create the indicator data</p>
<p><i>Guidance on monitoring suppliers' performance in relation to domestic customers:</i> www.ofgem.gov.uk/about-us/how-we-work/working-customers/supplier-performance-social-obligations</p> <p>The indicator is populated primarily from the Supplier Performance on Social Obligations. This data was originally presented in Social Action Plans, which had a series of 12 indicators to monitor progress. These were updated quarterly from figures provided by suppliers under their codes of practice monitoring returns:</p> <ol style="list-style-type: none"> 1. Total number of households in fuel poverty 2. Number of customers using prepayment meters 3. Domestic debt 4. Tariff and payment choice 5. Disadvantaged customers and competition 6. Priority service registers

7. Disconnections
8. Self-disconnections
9. Effective energy efficiency advice
10. Warm homes initiatives
11. Customer satisfaction
12. Prices

A smaller set of measures was introduced in 2006, removing information on fuel poverty, pricing and tariffs, some of which was transferred to the Scottish Housing Conditions Survey. Of those that remain, only 2, 3, 4, 6 [vulnerable groups], 7 and 9 are broken out for Scotland.

Figures for repayment methods are extrapolated from the GB wide figures in the OFGEM 2013 Annual Report §2.3.

Forecasts for energy prices are based on OFGEM's Supply Market Indicator:

www.ofgem.gov.uk/ofgem-publications/91533/smimethodology.pdf