energywatch
your gas and electricity watchdog

Sarah Piggott
Consumer and Social Affairs
Ofgem,
9 Millbank,
London
SW1P 3GE

sarah.piggott@ofgem.gov.uk

12 June 2008

Your Ref: 68/08

Dear Sarah,

Monitoring suppliers' social initiatives – proposed reporting framework

energywatch welcomes the opportunity to comment further on Ofgem's proposals on permissible spend for suppliers' social initiatives and on the framework for monitoring these initiatives. This response is non-confidential and we are happy for it to be published on the Ofgem website.

The views of energywatch were set out comprehensively in its response to Ofgem's open letter and have not changed in the interim. The answers to the specific questions below should therefore be read in conjunction with our response to the open letter.

Q1: What should the qualifying criteria be for a social tariff?

If a tariff offer is to qualify for social tariff status, it must represent a rate lower than any other tariff offered to the generality of customers of that supplier, regardless of the eligible customer's payment method: i.e. it must be the lowest cost tariff the supplier offers.

As stated previously, while recognising that tariffs which grant alignment with direct debit do offer a saving, particularly to recipients who are PPM users, they at best only provide parity with the 'fuel rich' and stop short of the additional degree of assistance that is required. Also, this approach offers no respite to the c.25% or more (depending on the definition used) of fuel poor consumers who are, through circumstance or choice, already paying by direct debit.

Ofgem's assertion that prescribing more strict qualifying criteria for social tariffs "may reduce incentives on suppliers to innovate in this area" is contentious. From the perspective of fuel poor consumers, it remains unclear exactly what the benefits of diverse approaches are. It is also questionable whether the innovation that might flow from this is in anyway more beneficial to fuel poor households than suppliers adopting existing best practice social tariff models.

Regulatory Affairs , 7th Floor, Percy House, Percy Street, Newcastle upon Tyne
www.energywatch.org.uk

Q2: Do you agree with the changes we have proposed to calculating suppliers' contributions from their social tariffs?

energywatch agrees in principle with Ofgem's proposals and welcomes the inclusion of breakdowns by payment method and the use of actual average consumption levels.

As highlighted above, c.25% of fuel poor households pay for their energy by Direct Debit and will be eligible for certain suppliers' social tariffs. This payment method should therefore be included.

It should also be noted that E.ON's social initiative, Staywarm, is restricted to dual fuel Direct Debit consumers only, a factor which may further complicate comparisons between this and other suppliers' initiatives.

energywatch notes with interest the concerns raised by certain suppliers on the value of Ofgem's proposed calculations on the savings made by social tariff recipients. We would encourage suppliers to publish their own estimates of these savings as supplementary information; and/or publish this information in their own CSR reporting.

Q3: What are the potential implications of assessing a supplier's social tariff against the lowest available for that payment method?

energywatch does not advocate that a supplier's social tariffs should be linked to external benchmarks (the lowest available tariff in the market, for example), but rather that the saving should be set against a supplier's own open market tariff rate. The discount offered against these rates must be sufficient to ensure that the social tariff offers a better rate than the supplier's lowest cost open market deal for each payment method[1]. On this basis energywatch supports the approach taken by EDFE and SSE, where a sufficient percentage discount against existing payment method ensures the social tariff is the best the supplier offers. This approach guards against any fluctuations in online prices, provides much greater clarity for consumer advisers and, in our view, represents the model of best practice that all suppliers should adopt.

Q4: Do you agree with our proposed approach to including rebates as part of suppliers' social spend?

energywatch recognises that bill rebates can have a positive effect, if well targeted, in reducing the cost of energy to fuel poor households. However, it is clear that certain rebates represent a saving in the region of just 1% of the average annual bill for recipients and, as such, the difference they will make, regardless of whether they are well targeted or not, is negligible. We would also expect to see suppliers' rebate offers diminish as their respective commitments to social tariffs improve.

[1] The energywatch report and recommendations on social tariffs – *A Social Responsibility?* - examines two ways by which this could be achieved: (1) a set percentage discount against existing payment method (which would see payment method differentials reflected in to social tariffs); (2) equalisation with direct debit plus an additional discount (which would result in a flat rate to all recipients).

On this basis we would advocate that Ofgem carefully considers the criteria it sets for permissible rebates and in doing so focuses on those rebate products that can make a meaningful difference to the energy expenditure of a low income household.

While Priority Services Register (PSR) registration can offer a good indication of who might be vulnerable in terms of their engagement with the energy market, we are not convinced that it offers anything like a reasonable proxy for fuel poverty. energywatch welcome the DWP's commitment to cooperate in the targeting of fuel poor consumers and anticipate that this will enable much more accurate targeting.

Q5: Do you agree with our proposed approach to including PPM equalisation as part of suppliers' social spend only where it is targeted at fuel poor customers?

energywatch support the use of targeted assistance to fuel poor PPM users which addresses the punitive differentials they pay. However, we believe that this should take the form of a social tariff that grants the recipient access to the lowest cost tariff the supplier offers, as detailed above. On that basis such actions should be recorded and monitored in the social tariff assistance category, rather than as PPM equalisation (the net result of social tariff provision anyway goes beyond universal equalisation with, or slight undercutting of, standard credit tariffs).

With regards to the vital issue of addressing PPM differentials, the energywatch submission to Ofgem's market probe details the manifest problems evident in the PPM market and the actions that we believe are needed to erode the unjustifiable PPM differential to the benefit of <u>all</u> PPM users.

Q6: Do you agree with our proposed approach to including trust funds as part of suppliers' social spend?

energywatch recognises the value of trust funds and the beneficial impact they can have on the welfare of recipients. However, it is readily apparent that these initiatives serve different objectives to social tariffs and rebates and, as such, do not result in a direct and immediate reduction in the actual cost of energy to fuel poor consumers. Typically, trust funds are in place to assist consumers who are struggling with energy debt - either directly through the award of debt write-offs, or indirectly through sponsoring the provision of advice by third party agencies.

Whilst acknowledging that up to half (48% according to Charis data) of trust fund grant recipients could be fuel poor, energywatch views trust funds as an integral part of best practice in debt management, rather than fuel poverty initiatives.

On this basis we do not support the proposal to include trust funds as part of suppliers' fuel poverty spend.

Q7: Do you agree with our proposed approach to including other categories of spend towards suppliers' social spend targets? In particular

our proposed approach to energy efficiency initiatives, debt prevention initiatives and operational costs?

The 2008 Budget, which heralded the intention for suppliers to treble their spending, clearly stated an expectation that additional monies would increase spending on social tariffs:

There is common agreement on the need to do more. Energy companies currently spend around £50 million a year on social tariffs; the Government would like to see that figure rising over the period ahead to at least £150 million a year.

It is the view of energywatch that, given the link between escalating prices and growing levels of fuel poverty, it is essential for the £150m to be invested as the Budget indicated: exclusively in those initiatives that ensure fuel poor households have access to the most affordable energy their supplier offers, namely social tariffs and bill rebates.

On this basis, we do not support proposals that will permit categories of spend beyond social tariffs and effective bill rebates.

With regards to specific categories:

Benefit entitlement checks (BECs): it is the view of energywatch that BECs fall in the domain of welfare rights and as such should be provided and paid for by government, with suppliers playing no more than a referral role.

Furthermore, the disparity in the quality of supplier provided BECs serves to undermine the case for their inclusion. energywatch has advocated that BECS must be comprehensive and capable of following and supporting the consumer from the point that the benefit entitlement is identified through to the point that the identified benefit is awarded, and accommodates any appeals process that might be necessary. Success must be measured not on the level of benefits identified, but on the level of benefits actually received as a result of the BEC process. It is unclear which, if any, of the BECs offered by suppliers meet this standard.

Energy Efficiency Initiatives: These are either an extension of, or vehicle for achieving, suppliers' CERT Priority Group obligations. The intention of the CERT Priority Group 'flexibility option' is to enable suppliers to deliver measures that are effective in lifting households out of fuel poverty. Work with projects such as Warm Zones and other partner agencies is to be applauded, but it has to be acknowledged that the benefits flow both ways. These initiatives assist suppliers in discharging Priority Group obligations by securing access to hard to reach low-income households.

Debt advice and suppliers' debt prevention strategies: energywatch agree that these should not be included towards spend targets for the reasons set out by Ofgem.

However, we do not support Ofgem's proposal to include the funding of external debt agencies. As with trust funds, energywatch views the funding of agencies as best practice in debt management. While energywatch again applaud such initiatives, we would class these as, in Ofgem's words, "activities all suppliers should undertake as a matter of course as a part of good customer service". Again, the benefits of such initiatives flow both ways – effective debt management is in suppliers' interests. As highlighted in the Budget excerpt above and in various Ministerial statements elsewhere, the stated purpose of the agreed additional spend is to tackle fuel poverty, not energy debt.

Q8: How do we ensure robust and true additionality in suppliers' calculations of their energy efficiency spend above their statutory obligations?

energywatch does not support the inclusion of energy efficiency spend and, given the concerns outlined above, is sceptical as to whether additionality can be satisfactorily disentangled from CERT centred activities.

Q9: Do you agree with our approach to include efficient administration costs where they relate to specific projects involving joint working across industry?

Given that the beneficiaries of social initiatives will be existing customers of suppliers, it is unclear what the additional costs incurred in offering a social tariff or bill rebate actually are, and whether such costs are in excess of standard running costs of any other action undertaken by the supplier on behalf of that customer (the customer changing tariff, payment method, or requesting registration on the PSR, for example). It is also questionable whether the ability to reclaim administration costs without sufficient safeguards being in place will actually drive efficient behaviours. On this basis energywatch does not support the inclusion of administration costs.

As part of its monitoring exercise, Ofgem should work to share best practice and information on targeting initiatives to help ensure efficient administration and operating costs.

Similarly, energywatch does not agree that costs towards projects involving joint working across industry should be included until such time that the effectiveness of those initiatives in tackling fuel poverty can de demonstrated; and until the benefit to suppliers in delivering their CERT Priority Group obligations is properly discounted.

Q10: Do you agree with our proposed approach to calculating suppliers' contribution towards their social spend targets

energywatch agree with the proposed approach to calculating suppliers' contribution towards their social spend targets. With regards to the framework including carryover for shortfalls, energywatch would actually support consideration being given to a degree of carryover for shortfalls being permissible in the first year, on the grounds that this would assist suppliers in developing and targeting initiatives effectively. We would much prefer this to a situation that led to badly thought out ‘panic spending’ in a bid to conform with the framework.

Q11: Do you agree with our proposed approach to setting the baseline spend?

energywatch agree with the proposed approach on baseline spend.

Q12: Do you agree with our proposed approach to include analysis on suppliers’ overall tariff and pricing strategies?

This information is useful for comparative purposes, but little more. Ofgem should be wary of over exaggerating the benefit to fuel poor households of suppliers’ open market pricing strategies, especially at a time when escalating prices mean that the least expensive bill is still too expensive for low-income consumers. It should also be noted that the spread between the least expensive and most expensive tariff offerings from the big six suppliers, particularly for direct debit and standard credit, has narrowed to the point where they are now negligible. It would also be naïve to assume that regard for low-income consumers rather than customer acquisition and retention has driven any such strategy.

Q13: Do you agree with our proposed approach to our monitoring role?

energywatch broadly agrees with the proposed approach on monitoring. However, as set out in our response to the open letter, we would like to see Ofgem’s monitoring include those elements employed in the analysis that Cornwall Energy Associates undertook for energywatch, particularly the proportion of each supplier’s customer base who are benefiting from tariff assistance and estimates on the proportions of turnover, both on an individual supplier and industry wide basis, that are being invested in these initiatives.

energywatch believes that an element of outcomes based reporting, which seeks to quantify the impact of initiatives on fuel poor households and their success in reducing fuel poverty would enhance the proposed monitoring regime. Ofgem should give consideration as to how this could be achieved.

Although broadly happy with Ofgem’s intention to report annually on suppliers’ social programmes, an interim, half-yearly summary of headline figures would be immensely useful. Ofgem should also establish a clear reporting timetable which provides deadlines for the provision of information by suppliers and enables it to report within 3 months of the end of the reporting period.

Q14: Do you agree with our proposal to require assurance from the Board of each supplier to ensure data accuracy?

While energywatch welcome board sign off as a positive step, it still falls short of the assurance that an independent audit would provide. We therefore support SSE’s statement that suppliers’:

….activities to help fuel-poor customers should be the subject of tough and independent monitoring and analysis. Subjecting their efforts to this analysis, and thorough and public scrutiny of suppliers' performance, will be a spur to excellence in support for fuel poor customers.

If you wish to discuss this response further, please do not hesitate to contact Richard Bates on 0207 7998347

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs