



Promoting choice and value
for all gas and electricity customers

Social Action Strategy: 2009-2010 update

Our Social Action Strategy, launched in 2005, sets out how Ofgem will meet its social responsibilities and help Government to tackle fuel poverty. This update provides an overview of our progress throughout 2009-2010 and sets out our programme of work for 2010-2011.

The price of gas and electricity remains a key concern for customers. Ofgem is acutely aware that the required scale of investment (up to £200 billion) needed to achieve a low carbon economy and security of supply over the next 10 to 15 years will have a significant effect on customers' bills which many customers are already struggling to afford. Ensuring that any price increases are fully justified and are in the best interests of present and future consumers, as well as ensuring that the costs of moving to a low carbon energy sector are not borne disproportionately by those customers least able to pay is a key concern for us.

Against this background, we will do all we can to ensure energy consumers, particularly the vulnerable, are appropriately protected. The actions we have taken and will take over the coming year, firmly demonstrates this on-going commitment.

As part of our internal sustainable development review, we are developing our approach to engagement with experts and interest groups concerned with sustainable development, including our work to protect vulnerable customers and help tackle fuel poverty.

Energy Supply Probe

As a result of our investigation into the energy supply markets in 2008 and 2009, we have developed a package of measures to improve the functioning of the market, including tougher new rules on energy suppliers' sales and marketing; new standards of conduct providing a guide to suppliers about the level of service they need to provide to customers; better information on bills and new rules around debt blocking.

A new licence condition on debt blocking introduced in January 2010 enables prepayment meter customers who owe up to £200 to switch supplier. As vulnerable customers are disproportionately represented among those in debt, this could open up the opportunity for them to get a cheaper energy deal. In addition, from July 2010 customers will begin to see better information on bills about their current tariff and energy usage which will help customers make pricing comparisons when they switch.

One of the key findings of the probe was that a significant number of customers remain disadvantaged by unjustified price differences and that vulnerable customers are disproportionately affected. As a result, in September 2009 we implemented two new licence conditions that require cost reflective tariff differentials for different payment methods and ban undue discrimination.

By December 2008 £300 million had been taken off customers' energy bills through reduced tariffs for prepayment meter customers and those not connected to the gas network (just over 20% of which are in fuel poverty). Since October 2007, the average premium over direct debit for a typical dual fuel prepayment meter customer has fallen from £111 to £69, and electricity profits per customer are now lower compared to gas, benefitting those without access to gas.

We also found that former monopoly electricity suppliers were charging more to customers that had never switched compared to those that had. In most cases suppliers have addressed these differences – representing a benefit to a large proportion of customers who remain with their former monopoly supplier. However, there remain a small number of premiums – we have taken this issue forward with the suppliers concerned.

We will continue to monitor energy suppliers' behaviour closely to be sure that the remedies do enable consumers to engage more confidently and effectively with the energy market. If, at any time, we feel that the new arrangements are insufficient to protect consumers, we will not hesitate to consider further action. We will also continue to monitor retail markets at an enhanced level to identify progress since the 2008-9 energy supply probe and where necessary consider further action, including enforcement action, to protect consumers' interests.

Protecting vulnerable customers against debt and disconnection



Ofgem has sought to build a 'best practice' approach in its work on minimising debt and disconnection, which in our view can deliver positive benefits for both energy suppliers and customers, allowing suppliers the freedom to innovate and differentiate themselves from their competitors whilst seeking to ensure quality and a degree of consistency for customers.

Ofgem and Consumer Focus carried out a joint review of the protection for vulnerable customers from disconnection in October 2009. As a result of our review, we secured a number of commitments from suppliers to improve their voluntary code of practice relating to disconnection. We also identified a number of good practices suppliers are taking forward to protect vulnerable customers against disconnection. Over the coming months, we will be looking for all suppliers to adopt some of these good practices. Following the review, we are considering whether consulted on amendments to suppliers' licence obligations maybe required clarifying that suppliers must take all reasonable steps to identify where a customer is vulnerable before disconnecting domestic premises.

We continue to monitor and report on supplier progress and practices in preventing and managing household consumer debt, encouraging best practice and using enforcement powers when necessary. In June 2010 we published our latest review in this area. To help ensure that suppliers take full account of the individual circumstances of customers struggling to pay their energy bills, in April 2010 we held a debt roundtable with suppliers, Citizens Advice and other consumer advocates/advice agencies to discuss the key principles we identified in our review for assessing customers' ability to pay. We will be hearing from suppliers by the end of the year to see what progress has been made to introduce these principles.

Effective monitoring and reporting are essential in enabling us to track progress on social issues, inform compliance activity and identify possible additional areas for future action. During the past year, Ofgem has continued to monitor and report on suppliers' performance against their social obligations relating to debt; disconnection; prepayment meters; obligations concerning suppliers' Priority Service Registers (PSR) and energy efficiency advice by publishing quarterly reports and an annual report in August 2009.

We will continue to monitor suppliers' performance in this area and will report on a quarterly and annual basis. We are also reviewing the data we collect as part of this monitoring and will consult on our proposed reporting changes later this year.

Working in partnership to tackle fuel poverty

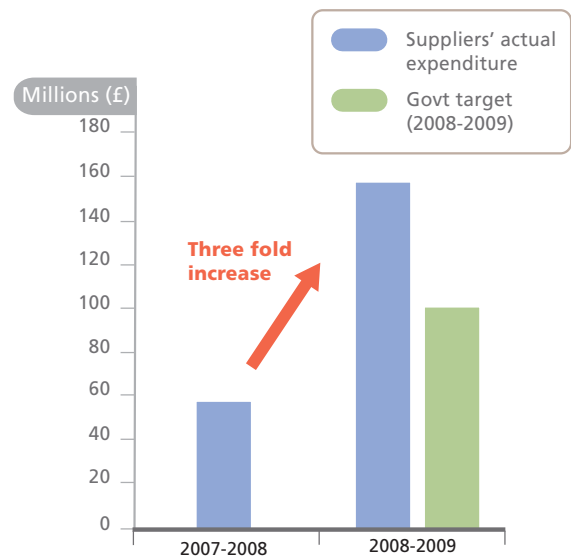
In 2008, Government secured an agreement with energy suppliers to increase their collective expenditure on social programmes by £225 million (to a total of £375 million) for 2008-11. In August 2009, we reported on suppliers' performance towards this agreement for the first year (2008-09). Suppliers' collective expenditure for 2008-09 totalled £157 million, which is an almost three-fold increase (175%) compared with 2007-08 when the total contribution was calculated at £57.12 million, and exceeded the Government set target for the first year of the agreement (£100 million) by 57%. We will report on the second year of the agreement early in the autumn and will continue to monitor the final year of the agreement in 2011.

Building on the success of the voluntary agreement, which is due to end in March 2011, Government has introduced new legislation (Energy Act 2010) which allows for the introduction of support schemes for the purpose of reducing fuel poverty. Such schemes require energy suppliers to provide benefits to certain groups of customers. We have been advising the Department for Energy and Climate Change (DECC) on the development and design of the new schemes. Ofgem E-serve, set up to manage and efficiently deliver government programmes, will also be preparing for the introduction of the proposed social price support scheme (on the basis that we are likely to be asked to administer it).

A key commitment secured at Ofgem's Energy Summit in April 2008 was for Government and suppliers to progress proposals to enable data sharing. Following the introduction of legislation enabling the Department for Work and Pensions (DWP) to share data on pension credit recipients with energy suppliers, data has successfully been shared which will result in energy suppliers giving these customers an automatic credit of £80 during 2010. It is hoped that data sharing will also be used to target assistance under the mandatory arrangements.



Suppliers' increasing spend on social programmes



Smart Metering

We are working jointly with DECC on the first phase of the smart metering implementation programme. This includes defining the scope and key principles for the smart meter programme which includes enabling effective consumer protection, for example by defining requirements in relation to data security and the protection of personal information.

Smart metering can deliver many benefits to customers, including the vulnerable, such as easier switching between prepayment and credit, lower tariff differentials between these two payment methods and better information on

consumption. However, it also raises a number of issues concerning consumer protection which we need to be mindful of. Ofgem will be looking to introduce a package of consumer protection measures in Spring 2011, with a particular focus on priorities such as ensuring there are adequate protections for when consumers are remotely switched between credit and prepayment payment types and ensuring progress on preventing disconnection is not undermined by the technology.

Smart metering can deliver many benefits to customers, including the vulnerable....

Understanding vulnerable customers' experience of the market



Having input from consumers, particularly the vulnerable, is key to being able to properly take their interests into account in our decision making.

We have done this by:

- Reporting on customer satisfaction with energy suppliers' complaints handling and on the operation and commissioning of a review of the energy services ombudsman.
- Undertaking consumer research on vulnerable customer switching (omnibus switching survey for 2009 carried out by Ipsos MORI).
- Working with key stakeholders, fuel poverty groups and forums in Scotland and Wales to ensure that particular issues facing these customers are appropriately considered.
- Maintaining contact with disability groups through the Disability Advisory Forum to strengthen our relationship and ensure that we understand and can take into account any particular needs that people with disabilities have in

relation to energy use and the energy market. Recent input has provided evidence to the smart metering programme.



Over the coming year we will take this work forward by undertaking further work to assess the impact of the new rules we have put in place for vulnerable customers following the energy supply probe.

We will also continue to gain consumer insight through our Consumer First programme to provide evidence of consumer views, including vulnerable consumers, to aid our policy development.

Helping vulnerable customers through regulation of network companies

Extending the gas network

As part of the Gas Distribution Price Control, an incentive mechanism (the Gas Discretionary Reward Scheme) was introduced to encourage gas transporters to extend their gas networks to help tackle fuel poverty in communities not connected to the gas network. We have continued to work with the gas distribution networks to ensure that the gas network extensions scheme is successful in delivering cheaper connections to fuel poor households and providing grants to eligible households for central heating and gas appliances. A total reward fund of £4 million is available each year for the Gas Discretionary Reward Scheme.

Promoting good practice

Ofgem administers the Customer Service Reward Scheme which is used to promote good practice among companies, who operate the electricity

network, when serving vulnerable customers.

The 2008/09 scheme identified good practice in maintaining the quality of customer information on Priority Services Registers (PSR); being proactive in contacting customers during outages and having a positive approach to working with suppliers to overcome data protection issues.

The 2009/10 scheme is focusing, among others, on proactively engaging and serving disadvantaged groups within the community; tackling social and environmental issues linked to the business and its customers such as unemployment, fuel poverty and carbon reduction.

Reviewing Ofgem's regulatory approach

Ofgem's RPI-X@20 project is reviewing the workings of the current approach

to regulating Great Britain's energy networks and considering what changes need to be made to deliver a regulatory framework that ensures network companies focus on the needs of current and future customers, including vulnerable customers.

Ofgem has a role in ensuring that we understand the needs of customers and we intend to establish an enhanced approach to stakeholder engagement which would complement the work being done by network companies.

Ofgem has held a number of workshops to discuss proposals with interested stakeholders, including consumer groups. These have allowed Ofgem to explore approaches that would help the participation of consumers and other stakeholder groups during the price control process.