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## **Report on the Social Action Plan**

Thank you for your letter of 20 July, inviting me to report on progress with the Social Action Plan. I welcome the opportunity to do so. One of my main concerns since coming to Ofgem has been to ensure that the work we do operates for the benefit of all social groups, and that we make the maximum practical contribution we can to reducing the scourge of fuel poverty. The Authority is committed to this.

2. As you know, the Plan was published in final form in March 2000. Ofgem's first Annual Report on the Plan was published in March this year, and I am attaching this for your information. I have tried to focus the report in this letter on the main issues, rather than on the detail, which is contained in the Annual Report.

### **Ofgem and fuel poverty**

3. Ofgem welcomes the Government's desire to end the blight of fuel poverty. We are committed to contributing to the achievement of the Government's target, as contained in the draft Fuel Poverty Strategy, of removing vulnerable households from fuel poverty by 2010. Ofgem notes the debate about how the numbers in fuel poverty should be defined. We take the view that for the strategy to succeed, the first priority must be to focus resources on those households which can be most readily identified as in need of help. We are concerned that, if adopted, suggestions for broadening the definitions and target groups – which could result in 1 in 3 households being defined as fuel poor – would dilute the ability of relevant agencies, particularly those concerned with housing improvements, to implement the strategy effectively. The identification of relevant households, and co-ordination on the ground, will be vital to the success of the strategy.

4. Fuel poverty is caused by three factors: low incomes, poor housing stock and energy prices higher than they should be. It is in relation to the last that Ofgem can make its distinctive contribution. We have therefore been working to contribute to the Government's strategy by keeping prices as low as possible, and by encouraging energy companies to introduce more innovative ways of addressing the needs of the fuel poor. The draft Fuel Poverty Strategy acknowledges the contribution which general price reductions have made, these being responsible for 700,000 out of the 1 million households lifted out of fuel poverty in England in the three years to 1999 – the largest single cause of reducing fuel poverty.

5. Households in all social groups have benefited from switching suppliers. We monitor this repeatedly, and are much concerned to ensure that competition works for the benefit of all social groups. In order to have the opportunity to participate further customers on low incomes, as well as other vulnerable groups, must be seen as commercially attractive by suppliers competing for business. Our main emphasis is therefore on promoting competition and innovation as widely as possible. We regard a reliance on cross-subsidies as an ineffective means of helping the fuel poor. These are difficult to target effectively. Cross-subsidies favour incumbents, making customers less attractive to competitors, thereby reducing pressures to innovate.

6. One of the most important elements of the Plan, where significant progress has been achieved, is in the development of a number of major initiatives by energy companies to address the needs of the fuel poor. We are working to make it commercially attractive for companies to address fuel poverty questions. These schemes benefit from a regime in which markets can operate effectively. I regard the further development of such schemes as a particular priority. You will be aware that a number of suppliers' schemes are featured in the draft Fuel Poverty Strategy document. They include:

- BGT's Warm-a-Life scheme which offers disadvantaged customers energy efficiency grants, free benefits checks and up to £15.00 reduction in their fuel bill
- Npower's Health Through Warmth scheme which trains health workers to identify fuel poverty and offer energy efficiency advice
- Powergen's partnership with Age Concern which targets energy efficiency measures to older people, as well as providing free heating when the temperature drops below freezing

- Scottish Power's Nest Makers scheme which advises those on benefits as to whether they are entitled to energy efficiency grants and allows customers to spread their fuel payments evenly over the year
- TXU's Staywarm scheme which allows customers over 60 years of age to pay a fixed amount for their fuel, irrespective of the amount they use, spread evenly over the year.

**Other progress made:**

**(i) *Codes of Practice***

7. We have taken steps to ensure that disadvantaged customers are provided with adequate basic protection. To this end, we have strengthened the Codes of Practice with respect to methods of payment, services for prepayment meter customers, and the promotion of special services and energy efficiency advice. In line with these improvements, we have also strengthened the monitoring we undertake to ensure companies are complying with their obligations. We are publishing a wide range of data on companies' performance for the first time. Opening companies to scrutiny will provide a strong incentive to maintain and, where necessary, improve performance. We are contributing information for the Fuel Poverty Indicators which the DTI is developing to monitor the Fuel Poverty Strategy, as well as developing our own indicators, which are available on our website.

**(ii) *Fuel Direct scheme***

8. We have been concerned about a particular group, namely those who received help under Fuel Direct, a Government programme which was being run down. Ofgem has been successful in achieving improvements in the operation of Fuel Direct, which helps claimants on qualifying benefits, threatened with disconnection, by making utility payments directly from their benefits. A working group, organised by Ofgem, comprising representatives from fuel companies, consumer bodies and Government, has identified a number of improvements to make the scheme work better. This work is covered in our Annual Report. A separate report has also been published by the Working Group. Ofgem will shortly be discussing options for longer term improvements to Fuel Direct with the Department of Work and Pensions (DWP). These could be implemented once automated credit transfer is introduced from 2003 as the norm for payment of benefits. I am grateful for the support which DTI have given to the Working Group.

### **(iii) *Research projects***

9. Progress has also been made on a series of research projects. The projects, mostly sponsored by the fuel companies, are designed to establish the direct experience and needs of customers, and to help inform future policy making. Research has already been completed in some important areas, such as prepayment meters and self disconnection, debt management and prevention, and energy efficiency advice. A number of further research projects are due for completion before the end of this year. Further information on this research programme is included on our Annual Report. They cover issues such as:

- effective incentives for customers to switch from prepayment meters to other payment methods
- how suppliers can best identify vulnerable customers in both urban and rural areas
- the potential for working with credit unions to offer low income customers a combination of energy efficiency advice, interest free loans and electricity and gas at cheaper rates.

### **Other current issues:**

#### **(i) *Supply price controls***

10. One important area for our current work is in reviewing price controls. This work includes Transco's price control, which is of course a monopoly area, and the supply price controls, where there is rapidly developing competition. The supply price controls on the former Public Electricity Suppliers (PESs) are currently under review to establish whether or not they need to be renewed in April 2002. The current controls include a cap of £15 on the maximum differential which PESs can charge prepayment meter customers. In gas, the overall price controls were removed from British Gas Trading in April. British Gas's prepayment meter customers continue to be subject to a form of control, in that they pay the same as certain other regular cash payers. In considering how best to protect customers' interests into the future, we will be looking into the extent to which electricity and gas customers paying regularly by cash and prepayment meters, as well as other groups, are benefiting from competition. The initial conclusions of our reviews will be published in November.

**(ii) *Customers on prepayment meters***

11. I am frequently asked about a potential cross-subsidy aimed at those who use prepayment meters. Ofgem is opposed to special arrangements for these customers based on a cross-subsidy. This is not a dogmatic opposition to cross-subsidy but for the very pragmatic reason that it would not help those whom we need to assist, namely the fuel poor. Research shows that in each income decile, including the lowest, a minority uses prepayment meters; for gas the figure is lower than those who use direct debit. Prepayment meters are not a good proxy for fuel poverty. This is best illustrated by the fact that, while 50% of the fuel poor are pensioners, only around 10% of pensioners use prepayment meters. Aid for prepayment customers therefore risks, on a net basis, harming the very fuel poor we wish to help.

12. Research undertaken for the Social Action Plan confirms that a large proportion of prepayment customers value such meters highly because of the assistance they provide with budgeting. Many prepayment meter customers say they would not consider another payment method. It is clear that many customers will want to continue to use prepayment meters, and it is important that they enjoy good value and service. We have concentrated our work on this. Ofgem's metering strategy sets out a number of measures to promote the introduction of more innovative technology, which may be of particular benefit to customers using prepayment meters. We have recently made some initial proposals for introducing competition into the provision of gas prepayment meters, which should result in more innovation.

**(iii) *Financial exclusion***

13. Ofgem strongly supports efforts to reduce the barriers of financial exclusion. Among the initiatives which companies have started to develop are new schemes to help customers currently without bank accounts gain access to financial services. This is in order to enable them to benefit from cheaper direct debit tariffs. The establishment of the Universal Bank, through the support of the Government, to give customers on benefits access to bank accounts through Post Offices, is in Ofgem's view a very important development. We will continue to use all the influence we can to encourage suppliers, banks, and the Post Office to work together to extend the choice of direct debit to more low income customers. I hope the DTI will continue to use its influence through its work on development of the Universal Bank. One of the research projects we are supporting in this area concerns the development of Credit Unions. Another concerns ways of encouraging customers to switch to cheaper tariffs.

**(iv) *Energy efficiency***

14. A further area where a great deal of work is going on is on energy efficiency. The delivery of energy savings, which companies are to be obliged to achieve through the Government's new Energy Efficiency Commitment, will make a very important contribution to reductions to fuel poverty. Ofgem is putting in place arrangements for administering the Commitment. A number of meetings have been held bringing together housing authorities and suppliers to stimulate the effective implementation of the Commitment. This is an area where, as already mentioned, co-ordination of effort is essential. We welcome DTI's initiative in sponsoring the Warm Zones pilots, which have the support of a number of fuel suppliers. We will be very interested in seeing how successful the Warm Zones approach is.

15. We also regard energy efficiency advice as important. This is perhaps an undervalued element in the Strategy. Building on one of the research projects, we have recently hosted a 'summit', bringing together suppliers and other advice providers to consider how advice can be delivered more effectively to the fuel poor. We are discussing follow up with DTI, DEFRA, and EST.

**(v) *Customers in debt***

16. In addition to all this, further important work is continuing in other areas. Progress on reducing the right of suppliers to block the transfer of customers in debt has been slow, because suppliers have been very resistant to change. However, following a great deal of discussion, we are now hopeful that a pilot will commence soon of a new process for enabling customers to switch with their debts. We hope this will be a first step to more permanent changes. Complementary to this, we will be taking forward work to promote better debt prevention and management, once again following up one of the research projects. We are also continuing to work on ways of promoting competition, through the provision of better pricing and other information to customers. We are working on this with energywatch.

I hope that this report reflects the high priority we give to our work on fuel poverty. I look forward to the opportunity to discuss this work further with you.

**CALLUM MCCARTHY  
CHAIRMAN OF THE GAS & ELECTRICITY MARKETS AUTHORITY  
CHIEF EXECUTIVE OF OFGEM**