

**Social Action Plan  
Annual Review 2003**

March 2003      18/03

## Summary

It is estimated that around three million households in Great Britain are in fuel poverty, which means that they would need to spend more than 10 per cent of their household income to heat their home adequately. In March 2000 Ofgem published its Social Action Plan, describing the work being undertaken by Ofgem and others to help tackle fuel poverty. In November 2001 the Government finalised its Fuel Poverty Strategy, which set the Government a target of eradicating fuel poverty in vulnerable households by 2010.

Levels of income, the standard of energy efficiency of housing and the price of fuel are all factors that can lead to fuel poverty. Ofgem has continued to maintain downward pressure on prices, through the promotion of competitive markets where it is possible and tough price regulation where it is not. In addition, through the Social Action Plan, Ofgem has worked to extend the benefits of the competitive market to all and focus suppliers on how they can improve services and reduce bills for low-income and vulnerable customers.

### *The past year*

In March 2003 the Government published its first annual review of the Fuel Poverty Strategy, which showed that since 1996 the number of households in fuel poverty has reduced from five and a half million to around three million. In the same period the number of vulnerable households in fuel poverty reduced to about two million. It is estimated that lower fuel prices accounted for approximately half this reduction.

Suppliers continued to develop innovative schemes that benefit low-income customers. Through easy payment schemes, competitive tariffs, packages to win and retain low-income customers, and partnerships to deliver energy efficiency measures, suppliers have responded positively to the social agenda. A significant contribution to these initiatives was the requirement on suppliers to promote energy savings through the Energy Efficiency Commitment (EEC), with half of the savings coming from the priority vulnerable group.

Ofgem's work has focussed particularly on debt and disconnection and energy efficiency advice. Ofgem worked with suppliers to develop a protocol allowing prepayment meter customers in debt to switch supplier. This followed a trial by the major suppliers of a new process of debt assignment. With help from an advisory group

representing suppliers and consumer organisations, Ofgem and energywatch produced good practice guidelines on preventing debt and disconnection. Using 'mystery shopper' research, Ofgem reviewed the performance of suppliers' energy efficiency advice services and, following publication of the results, set out the steps suppliers should be taking to improve their services.

Ofgem worked with other organisations to increase awareness about the benefits of switching, particularly among older people who have switched at below average rates. Work continues with suppliers and the Department for Work and Pensions on improvements to the operation of the Fuel Direct scheme.

### ***The coming year***

Building on last year's work on good practice guidelines, Ofgem and energywatch will be considering suppliers' strategies on debt prevention and will start to monitor their implementation. A follow-up 'mystery shopper' research exercise will be conducted to measure the extent to which suppliers have adopted good practice on energy efficiency advice.

Ofgem will undertake further qualitative research to examine the special services provided to older, disabled or chronically sick customers through the Priority Service Registers, to establish how well these are operating and whether these meet customers' needs. A research project will look at the costs of prepayment meters and the infrastructure which is needed to support them. There may be scope for reducing costs through innovation or improved efficiency.

Ofgem will also continue work in other areas including monitoring the progress of suppliers in the EEC programme, evaluating the Factor Four pilot which uses credit unions to provide payment and advice services, and working with others to help ethnic minority customers who are most likely to suffer from fuel poverty and customers living in rural areas benefit from the competitive energy market. Ofgem will continue to monitor how suppliers are performing across a range of indicators, and publish the results.

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# 1. Introduction

1.1. Ofgem's Social Action Plan was published in March 2000. It described how Ofgem sought to work with industry, Government and others to help tackle fuel poverty. This document reviews work undertaken as part of the Social Action Plan over the past year, and in particular:

- ◆ considers the extent to which developments in the market are benefiting customers who may be in fuel poverty,
- ◆ outlines the policy initiatives undertaken by Ofgem to improve access to competition and improve services, and
- ◆ describes the Social Action Plan priorities for 2003-4.

## ***Background***

1.2. Around three million households are currently in fuel poverty in Great Britain, which means that they would need to spend more than 10 per cent of their household income on energy to maintain a satisfactorily warm home. Fuel poverty has three main causes: the price of fuel, the standard of energy efficiency in the home, and the level of income. The main contribution that Ofgem and energy companies bring to bear is to reduce fuel prices, and to promote energy efficiency improvements.

1.3. The original Social Action Plan set out four areas of initial work for Ofgem. These were:

- ◆ changes to licence conditions and codes of practice in the area of social obligations,
- ◆ policy initiatives to address barriers to competition for low-income customers,
- ◆ seven research projects, and
- ◆ introduction of enhanced monitoring of suppliers' performance.

1.4. By March 2002 work had been completed on licence condition changes and revised codes of practice; the seven research projects were complete and conclusions were being drawn; and enhanced monitoring arrangements had been introduced. In the past year Ofgem has built on this initial work and made progress in a number of related areas. Most notably, Ofgem has:

- ◆ worked with suppliers to develop a protocol to enable prepayment customers in debt to switch supplier,
- ◆ developed and published good practice guidelines with energywatch on debt prevention,
- ◆ researched supplier performance on the provision of energy efficiency advice, published the results, and followed these up with good practice guidelines,
- ◆ worked with other agencies, including Age Concern, to improve awareness about the benefits of competition,
- ◆ worked with the Department for Work and Pensions (DWP) and suppliers on the operation of Fuel Direct, including the development of an electronic interface, and
- ◆ through administration of the Energy Efficiency Commitment (EEC), supported the development of company initiatives for the priority group.

### ***Fuel Poverty Strategy***

1.5. The Government has recently published its first annual review of the Fuel Poverty Strategy<sup>1</sup>. This provides an update on actions since publication of the Strategy in November 2001 and highlights key areas for attention during the coming year.

1.6. The report shows that there has been a 40 per cent decrease in fuel poverty since 1996, from about five and a half million households down to about three

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<sup>1</sup> The UK Fuel Poverty Strategy 1<sup>st</sup> Annual Progress Report, 2003 – DEFRA, DTI

million in 2001. This reduction is in roughly equal proportions the result of lower fuel prices and higher incomes.

- 1.7. The report suggests that energy prices may not contribute to reductions in fuel poverty to the same extent over coming years. However, changes to the benefits system, and further income related measures such as the Pension Credit, are expected to improve the incomes of vulnerable households. In addition, greater improvements to the energy efficiency of homes are expected as a result of EEC, the Warm Front Scheme (and its equivalent in the Devolved Administrations), and social housing programmes.
- 1.8. The report recognises that it will be important to keep schemes under review to ensure maximum impact. The results of reviews of the Warm Front scheme (by Department of Environment, Food and Rural Affairs (Defra) and National Audit Office (NAO)) and an evaluation into the five pilot Warm Zones will be available later in 2003.

### ***Social and environmental guidance***

- 1.9. In November 2002, following Parliamentary approval, the Department of Trade and Industry (DTI) published the statutory guidance to Ofgem on social and environmental issues. Ofgem is required to have regard to the guidance when discharging its statutory functions.
- 1.10. As the draft guidance was under discussion for over two years, Ofgem has had the opportunity to prepare for the guidance coming into formal operation. Many of the activities described in this review are relevant to issues mentioned in the guidance, for example, work on the Fuel Direct scheme, development of credit unions, provision of information to prepayment customers, good practice on debt and disconnection, and energy efficiency advice. Ofgem will continue to promote and support the development of appropriate initiatives under the Social Action Plan, in order to help contribute to the Government's wider social policies.



## ***Energy White Paper***

- 1.11. In February 2003 the DTI published the Energy White Paper, setting out the government's long-term strategy. This includes four goals for energy policy: cutting carbon dioxide emissions; maintaining reliability of energy supplies; promoting competitive markets in the UK and beyond; and ensuring every home is adequately and affordably heated. The policy gives particular emphasis to the contribution of energy efficiency to these goals. Ofgem welcomes the continuing emphasis on reducing fuel poverty in the Government's energy policy.
  
- 1.12. In the White Paper, the Government announced that it will consult on an expansion of the EEC, to run from 2005 to at least 2008, at possibly twice its current level of activity, and that it will revise the statutory guidance to make it more specific. Ofgem will be working with DTI and other government departments on these and a range of other issues in the White Paper.

## 2. Overview

- 2.1. This section outlines progress against the original priorities of the Social Action Plan, sets out our latest understanding of market developments, describes the range and impact of company initiatives, and draws out issues from Ofgem's social obligations monitoring. It also outlines the main points arising from the Social Action Plan Review Group, which Ofgem established to provide advice on the Plan.

### ***Progress against the original priorities for the plan***

- 2.2. When it was published in March 2000 the Social Action Plan set out a series of priorities for Ofgem to focus on in developing and monitoring the Plan. With the benefit of three years' work on the Plan, it is useful to review progress so far.
- 2.3. As concerns **ensuring that customers using more expensive payment options have a better means of accessing cheaper payment methods**, work has been done to improve access to better and clearer information, initially by Ofgem and more recently by energywatch. This information includes factsheets, a website and several approved independent sources of advice on prices. Ofgem has kept in touch with the development of banking options for those without bank accounts. We will be following the results of the DWP's publicity campaign to convert claimants who do not use bank accounts to receiving payment of their benefits direct. While our research suggests that many low-income customers value their prepayment meters, or prefer to pay weekly in cash, we hope some will take the opportunity to use direct debit from bank accounts, where this is suitable, as a means of saving money on their fuel bills.
- 2.4. We have taken several initiatives to **overcome barriers to customers participating more actively in the competitive market**. In this review we report on the outcome of work with suppliers to develop a new process of debt assignment to enable many prepayment customers repaying debts to switch suppliers. We have pursued the project to encourage **suppliers to have an effective dialogue with customers in debt**, initially by promoting research, and followed this up during 2002 with the development of good practice guidelines in a joint project with energywatch.

- 2.5. **Encouraging the development of tariffs and cost effective payment methods, which meet the needs of vulnerable households**, has resulted in a number of initiatives by suppliers which we report on in this review. Ofgem continues to work **to overcome barriers to suppliers in accessing cost effective prepayment meter systems and other regular payment methods**. This includes the introduction of competition into metering services to promote innovation, work on improving the operation of Fuel Direct, and the Factor Four pilot involving credit unions.
- 2.6. We undertook to **encourage and develop innovative schemes to improve energy efficiency in disadvantaged households**. As reported in this review, many innovative schemes have been developed by suppliers, principally through the Energy Efficiency Commitment (EEC) programme, which replaced the Energy Efficiency Standards of Performance programmes on 1 April 2002. We have also worked to improve the quality of energy efficiency advice provided by suppliers, particularly for the benefit of customers on low incomes. Our research in this area is covered in this review.
- 2.7. Our work on **cutting costs to customers through price controls and ensuring greater competition in generation** has contributed to significant price reductions for customers, particularly those who have switched supplier. In the original Plan, we highlighted the importance of **resolving the difficulties encountered by prepayment meter customers**. We have supported several research projects in this area, and taken steps to improve the information provided to prepayment meter customers to help them avoid problems with self-disconnection.
- 2.8. We will focus more during the coming year on considering whether **the special needs of elderly, disabled or chronically sick customers are taken fully into account**. We have already supported research into this area and a number of supplier initiatives address these needs. We intend to undertake additional qualitative research during the coming year on how companies are meeting their obligations and the level of awareness among customers. Significant work has been undertaken **to ensure that companies report on their activities**. This includes quarterly monitoring reports, which are published by Ofgem to show how companies are performing on their social obligations. Appendix 1 to this review includes a range of indicators for measuring progress.

## ***Prices***

- 2.9. Ofgem's work bears directly on fuel prices, through a combination of regulation of the transmission and distribution monopolies, and promotion of competition in the generation and supply markets. Falls in average prices since 1996 have played an important role in reductions in the numbers of households in fuel poverty.
- 2.10. Between 2001 and 2002 average electricity prices for households fell by about two per cent in real terms. Over the same period, average gas prices for households rose in real terms by around three and a half per cent. Given the offsetting effect of increases in incomes and energy efficiency over the period, it is estimated that there should be no net increase in households in fuel poverty. Historic differentials between prepayment and credit tariffs have been broadly maintained, proving concerns to be unfounded that these would increase with the removal of retail price controls in April 2002.

## ***Wholesale electricity prices***

- 2.11. In December 2002 Ofgem published an occasional paper on electricity supply competition<sup>2</sup>. The paper aimed to give a rounded picture of the factors influencing the prices paid by customers in the context of significant wholesale price reductions of 40 per cent since October 1998. The paper noted that domestic non-switchers have seen real prices fall by 8 per cent, while for switchers the average of best discounts available was 17 per cent in real terms, compared to prices in October 1998. Ofgem noted that while wholesale price reductions would be expected to make a large impact on customers' bills, the scale of these reductions was mitigated by longer-term price contracts between suppliers and generators, and increases in operating costs. Ofgem recommended that in order to capture the maximum savings available, customers who had yet to do so should switch supplier, and that this should be of particular benefit for low-income customers.

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<sup>2</sup> Electricity supply competition, an occasional paper (83/02) – Ofgem, December 2002  
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## ***Development of competition***

2.12. Competition in the gas and electricity markets continues to be vigorous. Around 150,000 customers are currently switching suppliers each week and, as shown in appendix 1, customers in vulnerable groups have taken the opportunity to switch supplier. Savings are available across all payment methods.

2.13. The table below shows current incumbent direct debit, standard credit, and prepayment bills, compared with the best saving available from switching.

**Table – incumbents' current bills and cheapest offers (Dec 2002)**

<b>Incumbent Supplier</b>	<b>Direct Debit</b>		<b>Standard Credit</b>		<b>Prepayment</b>	
	<b>Incumbent's Bill (£)</b>	<b>Best Discount</b>	<b>Incumbent's Bill (£)</b>	<b>Best Discount</b>	<b>Incumbent's Bill (£)</b>	<b>Best Discount</b>
<b>Eastern</b>	226	14%	239	14%	243	10%
<b>East Midlands</b>	226	13%	236	11%	244	10%
<b>London</b>	238	13%	247	12%	255	10%
<b>Manweb</b>	261	15%	268	13%	284	10%
<b>Midlands</b>	236	14%	236	11%	259	10%
<b>Northern</b>	251	22%	264	20%	276	10%
<b>Norweb</b>	234	15%	242	13%	258	10%
<b>Seeboard</b>	232	15%	241	13%	249	10%
<b>Southern</b>	252	17%	266	17%	280	12%
<b>SWALEC</b>	276	14%	290	14%	306	12%
<b>SWEB</b>	261	14%	269	12%	277	10%
<b>Yorkshire</b>	238	18%	251	17%	266	10%
<b>Scottish Power</b>	271	15%	280	12%	294	10%
<b>Scottish Hydro</b>	269	19%	283	14%	283	11%
<b>British Gas (gas)</b>	314	18%	347	18%	347	7%

Source: energywatch (Calculations are based on annual consumptions of 3,300 kWh for standard rate electricity and 19,050 kWh for gas. All prices include VAT at 5%)

## ***Company schemes***

2.14. Companies have developed a wide range of innovative schemes to assist fuel poor and low-income customers. These are summarised in Appendix 2. Since a number of approaches have been employed, it is useful to review how some of the principal schemes operate. Some schemes are designed to win and retain customers by providing competitively priced innovative tariffs, and easy payment methods, together with advice. A number of the schemes have

accessed EEC money to fund or part-fund energy efficiency improvements in customers' homes. Many schemes operate in partnership with other organisations. Companies report that schemes currently running will have assisted by their completion approximately one and a half million customers through affordable tariffs, energy efficiency measures to improve insulation and heating, benefits health checks, referrals to caring agencies, grant aid, and access to financial services.

- 2.15. In terms of competitively priced innovative tariffs, the largest, in terms of customer numbers is Staywarm, offered under the former TXU brand and now run by Powergen. This tariff enables older customers to pay a fixed amount each month, based on the number of bedrooms and adults in the property, regardless of usage. The prices are reviewed every 12 months. Although Staywarm prices have risen substantially since its launch, the offer of a fixed price provides peace of mind to older customers who may otherwise worry about receiving high bills over the winter months. There are currently over 250,000 customers supplied under this tariff.
- 2.16. Another commercial offering aimed at older customers, also offered by Powergen, is the Age Concern Energy Services tariff. While the price of fuel itself is the same as a standard tariff, there is a cold weather payment (paid when the temperature drops below freezing) and some (EEC funded) free energy efficiency measures tied in.
- 2.17. There are many other commercial schemes that are designed to build or retain customer loyalty through a range of benefits. Scottish Power's NEST makers offers the benefits of a competitive tariff, as well as help in accessing advice and energy efficiency measures. Scottish Power currently has approximately 25,000 customers signed up for NEST makers.
- 2.18. British Gas currently has 70,000 customers signed up to its Warm-a-life package. This offers energy efficiency measures (funded through EEC), as well as financial benefits through one-off discounts of £10 and prices capped for over a year. British Gas reports 25 per cent average energy savings for customers in receipt of energy efficiency measures. The scheme also offers benefits health checks, and while only approximately 1000 households have taken-up this aspect of the

offer, the increase in income has been significant, with this averaging £850 per household.

- 2.19. Suppliers have also introduced a number of innovative smaller-scale schemes or pilots designed to reduce bills for customers on low incomes. These include London Electricity's Powerkey Plus pilot, which eliminates the surcharge for prepayment customers, but charges for call-outs. British Gas has trialled Jigsaw, a 'no-frills' bank account, which allows weekly paying customers to benefit from direct debit tariffs.
- 2.20. The other main type of scheme is not necessarily concerned with increasing or retaining customer numbers. This partnership approach generally involves working with local authorities, housing associations and other interested parties, often focussed in particular locations. Examples of such schemes include the British Gas Here to HELP programme, Innogy's Health Through Warmth, and Powergen's recently launched Heat Streets. A number of suppliers are contributing to the Warm Zones pilots, which aim to address fuel poverty at area level. The idea central to these schemes is to deliver packages of measures to tackle fuel poverty, accessing whatever funding is available, taking the benefits of economies of scale. This can involve pooling EEC funding together with Warm Front and local authority grants to deliver insulation, heating and other significant measures. Further details on these schemes can be found in section 3 and Appendix 2. Ofgem will be supporting DTI with their work in evaluating customer benefits from company initiatives.

### ***Monitoring social obligations***

- 2.21. Ofgem has continued to monitor suppliers' performance under their codes of practice obligations and to publish data on its website. In a number of cases follow up work with suppliers has been required where the data provided has been incomplete or unreliable, or where it reveals a worrying trend.
- 2.22. Data for 2002 is summarised at Appendix 1. Among other things, the data shows that in comparison with 2001:
- ◆ the number of customers provided with energy efficiency advice has risen by 27 per cent,

- ◆ the number of free gas safety checks has fallen 13.5 per cent,
  - ◆ gas disconnections fell by 16.5 per cent, and
  - ◆ electricity disconnections increased to around 1000 over the year.
- 2.23. The drop in numbers in the take-up of free safety checks is largely due to a 28 per cent drop in the number carried out by British Gas. Most other suppliers increased the number of safety checks they carried out compared to 2001. Ofgem intends to commission research into suppliers' operation of their Priority Service Registers and associated services over the next 12 months.
- 2.24. While the rise in electricity disconnections is unwelcome, such disconnections remain extremely low compared to gas disconnections (995 compared to 21,780). As suppliers develop their debt prevention work, Ofgem would expect to see both gas and electricity disconnections fall. This will be monitored closely over the next 12 months.
- 2.25. Ofgem publishes data on its website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)) every quarter. Suppliers are obliged to publish and distribute free on request a record of their performance annually.
- 2.26. Data from the monitoring also feeds into the key indicators used to check progress of the Plan (see Appendix 1).

### ***Social Action Plan Review Group***

- 2.27. The Social Action Plan has a Review Group, which provides guidance to Ofgem on how it carries out its work under the Plan and reviews relevant issues. Membership includes representatives from suppliers, consumer organisations, and DTI (see Appendix 3).
- 2.28. The Group has considered how competition in the provision of metering services could lead to greater innovation and lower prices, including in relation to prepayment meters. Other topics debated included the extension of the gas network and the operation of Fuel Direct. The Group expressed concern that the numbers of customers on Fuel Direct have fallen so low and continue to fall, and recommended Ofgem do more work to investigate this.



### 3. Helping customers in debt

- 3.1. Research carried out under the Social Action Plan and separately by MORI has demonstrated that customers in debt are likely to be on low incomes. While the extent of the overlap between debt and fuel poverty is unclear, initiatives to help low income customers avoid debt problems should contribute to a reduction in fuel poverty.

#### ***Preventing debt and disconnection***

- 3.2. In last year's annual report Ofgem described the work being undertaken with energywatch to tackle debt and disconnection.
- 3.3. Towards the end of 2001 Ofgem and energywatch set up an advisory group to help with the development of guidelines on the prevention of debt. The advisory group, which was chaired by Peter Lehmann (Chairman of the Energy Saving Trust and Fuel Poverty Advisory Group), consisted of representatives from energywatch, Citizens Advice, Public Utilities Access Forum (PUAF), fuel suppliers and DTI. This group met throughout 2002 and made a significant contribution to the development of the guidelines. Ofgem and energywatch are grateful to Peter Lehmann and all of the representatives for their valuable help on this project.
- 3.4. The group was particularly helpful in advising energywatch and Ofgem on the practical steps that could be taken by suppliers to address the problems highlighted by energywatch's complaints information, Citizens Advice evidence, feedback from consumer workshops and research carried out under the Social Action Plan. Further details of the issues considered by the group can be found in the joint consultation document<sup>3</sup> issued by energywatch and Ofgem in September 2002, setting out the proposed guidelines.

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<sup>3</sup> Preventing debt and disconnection, good practice guidelines developed by energywatch and Ofgem – September 2002  
Social Action Plan Annual Review  
Office of Gas and Electricity Markets

## ***Good practice guidelines***

- 3.5. After extensive discussions with the advisory group, energywatch and Ofgem identified six key areas where suppliers should focus their efforts to improve, and specific examples of good practice to adopt under each.
- 3.6. The six key areas, with a description of the main thrust of guidelines under each, are shown below. Suppliers should be focussing on:

### **Minimising billing errors**

- ◆ Providing regular accurate bills, in particular following change of supplier

### **Using incoming calls to identify consumers in difficulty**

- ◆ Training frontline staff and using flags on consumer records to identify certain characteristics and provide assistance as appropriate

### **Using consumer records to target energy efficiency improvements**

- ◆ Targeting help at customers with characteristics that may reflect low-income

### **Demonstrating flexibility in debt recovery**

- ◆ Ensuring that customers are handled in a manner appropriate to their circumstances and that they are not asked to pay more than they can afford

### **Offering sustainable solutions to consumers in extreme hardship**

- ◆ Strengthening links with agencies to enable a wider approach leading to sustainable solutions for customers with multiple debt problems

### **Helping consumers who are unable to manage their own affairs**

- ◆ Training frontline staff to identify customers who might be unable to manage their own affairs and having arrangements in place to help them

- 3.7. Responding to these proposals, suppliers and consumer groups were in general agreement with the good practice approach and focus of the guidelines. However, some suppliers said that in certain areas incorporating the good practice would involve IT changes and training issues, which could take longer to introduce. The final guidelines were published in a leaflet, 'Preventing debt and disconnection', in January 2003<sup>4</sup>. Ofgem issued a letter alongside the leaflet, asking suppliers to prepare strategies on debt prevention, focusing on the six key areas in the guidelines and describing the good practice measures they will adopt. Suppliers have been asked to confirm which measures they will have in place by 1 April 2003 and which will take longer with a timescale for implementation.
- 3.8. To help review the strategies, Ofgem and energywatch will continue to monitor the impact on numbers of customers in debt, levels of debt, disconnections and customers provided with energy efficiency advice. We will also monitor the extent to which companies are taking steps to adopt good practice, eg to minimise billing errors; check that new customers are accurately billed within six months; train call handlers; use screen prompts to help frontline staff to identify customers in difficulty; use consumption history and customer data to target energy efficiency measures; and provide sustainable solutions to customers in severe difficulty.
- 3.9. In addition to a formal review in September 2004, energywatch and Ofgem will monitor the progress of suppliers' strategies as they develop and intend to visit companies periodically to view their strategies in action.

### ***Enabling prepayment customers in debt to switch supplier***

- 3.10. Gas and electricity suppliers are currently entitled to block customers in debt from transferring to other suppliers. These so called 'debt blocking' rules were put in place to reduce the risk of customers not paying their debts to their supplier. However, debt blocking reduces customers' access to competition.

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<sup>4</sup> Preventing debt and disconnection, energywatch and Ofgem – January 2003  
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During the past three years Ofgem has considered various approaches to reforming the debt blocking rules.

- 3.11. Following discussions with Ofgem, the major suppliers set up a working group early in 2001, under the chairmanship of British Gas, to consider options for reform. The group decided to develop and trial a new debt assignment process. This would enable many prepayment meter customers, whose transfer to another supplier would normally be blocked, to move to a new supplier, taking their debt with them. Prepayment meter customers account for some 70% of customers in debt.
- 3.12. The trial of the new process, which took place between 1 December 2001 and 28 February 2002, proved very useful in confirming the validity of the debt assignment approach. However, it highlighted a number of areas needing improvement, and the working group decided that the process needed to be simplified. Issues needing attention included communication of options to the customer, and compliance with the Data Protection Act 1998 (DPA).

### ***A new protocol***

- 3.13. Taking account of these findings, the working group has developed a protocol, setting out the arrangements for operation of a permanent debt assignment process for prepayment customers. This protocol provides:
- ◆ for customers in debt who seek to transfer to receive a letter from their existing supplier explaining the option of debt assignment, together with the requirements for DPA consent,
  - ◆ subject to the customer's agreement, for debt information to be passed between the existing and prospective new suppliers,
  - ◆ for the transfer to proceed where the new supplier and customer agree to debt assignment, with the debt remaining for collection through the prepayment meter, and
  - ◆ for debts to be factored at a standard rate of 90%, to give an incentive to the acquiring supplier.

3.14. The working group proposed a £100 minimum threshold as the level up to which debts will normally be accepted by acquiring suppliers. Some companies said they would accept higher amounts. Ofgem accepted that in a competitive market suppliers should have flexibility to differentiate their service offerings, and to exercise discretion over their debt policies, albeit with a view to consistent practice.

### ***Proposals for regulatory change***

3.15. Ofgem published a consultation document on 31 October 2002<sup>5</sup> setting out the results of the trial, the proposed debt assignment protocol described above, and the regulatory changes needed to support it.

3.16. While the consultation raised some concerns about costs, the extent of benefits to customers, and potential effects on companies' commercial positions, overall the objective of the protocol in removing barriers to competition was supported. Ofgem recognised that the full effect of the protocol was limited during the trial due to the temporary nature of the systems employed, communication and data protection difficulties. Ofgem expects a permanent process will be effective in enabling prepayment customers repaying debts to switch supplier.

3.17. During 2003 steps will be taken to implement the protocol by proposing an amendment to the Standard Conditions of the Gas Supplier's Licence. An amendment to the Master Registration Agreement (MRA) to implement the protocol in electricity was approved in March 2003. The protocol should come into operation on 1 January 2004. Once in operation, Ofgem will monitor the protocol closely. Ofgem is grateful for the hard work and support shown by many industry participants which has resulted in this progress.

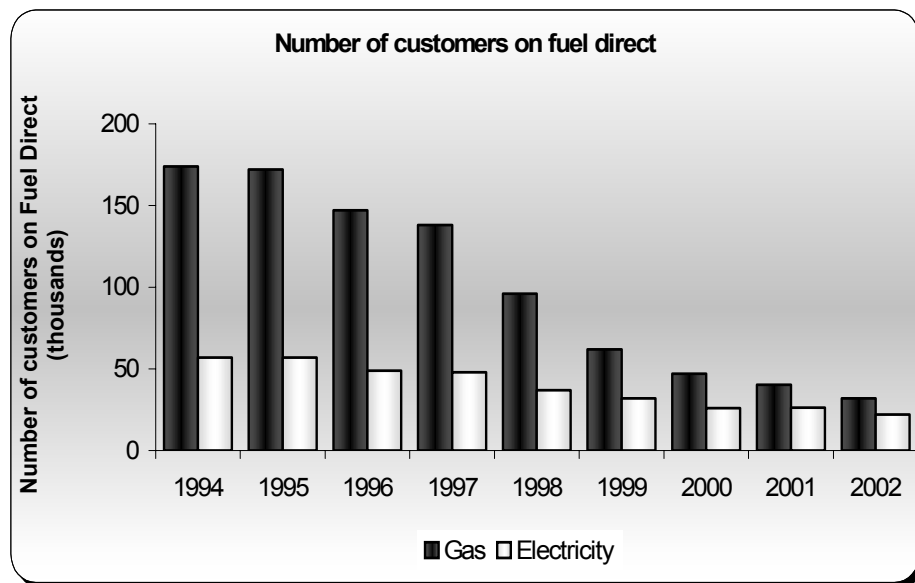
### ***Improving the operation of Fuel Direct***

3.18. The Fuel Direct scheme helps benefits' claimants threatened with disconnection for non-payment by making deductions directly from their benefits. The scheme is operated by DWP, in association with fuel suppliers.

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<sup>5</sup> Proposed debt assignment protocol for prepayment customers: a consultation document, October 2002  
72/02

- 3.19. During the year, Ofgem has continued to work with the DWP and suppliers to ensure that the recommendations of Ofgem's Fuel Direct working group on improving the scheme are implemented. These recommendations included the introduction of guidelines to help focus Fuel Direct better on customers who need it most, and a standard application form for suppliers to use. In addition, to help reduce the amount of manual work involved in the Fuel Direct scheme, Ofgem has promoted the development of an electronic interface between suppliers and DWP.
- 3.20. Ofgem hosted several meetings during the year, bringing together suppliers' staff directly concerned with the scheme and DWP to review the operation of the guidelines, and the electronic interface. Following discussion at these meetings, DWP has agreed to introduce an electronic interface for monthly payment schedules during 2003. This commitment has been very much welcomed, since it should help suppliers improve their operation of the scheme, and cut costs.



- 3.21. Ofgem has continued to monitor the use of Fuel Direct. There continues to be a marked declining trend in the use of the scheme over the last 10 years (see table). Ofgem has discussed this with suppliers and DWP to try to understand the reasons. DWP point out that the continuing fall in numbers mirrors a similar decline over time in the majority of third-party benefit deductions. DWP suggests a major reason for this is the fall in the numbers of unemployed and

lone parents. Suppliers report that there is no change in the extent to which they promote the scheme. However, they believe they are now more flexible in payment arrangement discussions and that customers are given more options to choose from. In general, the working relationship between suppliers and DWP benefits offices appears to be good, although Ofgem has received a few reports of difficulties due to unfamiliarity with the arrangements. Ofgem will continue to keep the situation under review, including the extent to which the introduction of an electronic interface improves the operation of the scheme.

3.22. Ofgem is also following closely the development of automated credit transfer into bank accounts, which from April 2003 will become the normal method of payment for benefits and tax credits. Around three million people will need to open bank accounts for the first time in order to receive their benefits in the future. The greater uptake of bank accounts should help tackle some of the problems associated with financial exclusion, and lead to more customers being able to pay their gas and electricity bills through the cheaper method of direct debits. Ofgem will be following developments to see how the banking options available to benefits claimants work in practice. These will not affect the availability of Fuel Direct.

3.23. DWP will be mounting a campaign, starting in the spring, to convert claimants currently paid via order books / giros to bank accounts. There are three types of account. In addition to the normal current accounts, banks and building societies will also offer basic bank accounts. These are similar to current accounts, but do not offer overdraft facilities. As with current accounts, basic bank accounts will enable cash withdrawals and payment by direct debit. There will also be the option of opening a Post Office card account, which can only be used to receive benefit, state pensions and new tax credit payments. This account will allow withdrawals but will not allow customers to pay by direct debit, go overdrawn or incur charges. It will be particularly important in rural areas where there are fewer bank branches.

## 4. Improving energy efficiency services

- 4.1. For many customers on low incomes, high quality energy efficiency advice and help with installing measures can make a big difference with being able to keep adequately warm. Over the past year Ofgem has worked on the administration of the Energy Efficiency Commitment programme which delivers energy efficiency measures to customers, and promoted the provision of good quality advice.

### ***Administering the Energy Efficiency Commitment***

- 4.2. The Energy Efficiency Commitment (EEC) programme places an energy savings obligation on electricity and gas suppliers to be achieved by 31 March 2005. The programme recognises both the social benefits of energy efficiency and the contribution this can make to the reduction of carbon emissions. In practice EEC involves helping households install energy efficiency measures in their homes. Suppliers are required to target at least half of the energy savings from the measures at the 'priority group' - households that receive income related benefits or tax credits.
- 4.3. Ofgem's role is to oversee suppliers' work by approving each energy efficiency scheme they set up and by monitoring progress. Suppliers provide quarterly reports to enable Ofgem to monitor the development of their schemes.
- 4.4. Suppliers' most recent reports, detailing the schemes set up and the measures delivered up until the end of December 2002, show that suppliers are now installing energy efficiency measures at almost five times the level of that achieved under the predecessor programme, the Energy Efficiency Standards of Performance (EESoP) 3.

### ***Measures for the priority group***

- 4.5. Of the schemes approved to date, just under half the resulting savings will benefit the priority group. Ofgem estimates that these schemes will deliver two million energy efficiency measures (excluding low-energy lighting) for households in the priority group. With low energy lighting included, the total number of measures installed rises to over 17 million.



- 4.6. Of these two million measures, approximately half involve either loft or cavity wall insulation which will deliver annual fuel savings worth almost £60 million, or about £55 a measure. For a three bedroom semi-detached house, provided with cavity wall and top-up loft insulation, this equates to savings on the households' fuel bills of approximately £100 a year. Further details of the measures installed for priority group customers can be found at Appendix one, under indicator 10.
- 4.7. Suppliers have developed a range of innovative schemes to achieve the required savings for customers in the priority group. Some of these are identified below.

### **Locally based partnerships with housing providers**

- 4.8. Many suppliers have developed schemes in partnership with local authorities, social housing providers, charities or other agencies to improve housing conditions in deprived communities. By working in this way, suppliers and local authorities have been able to pool resources - from EEC, Warm Front and other regeneration budgets - and use local knowledge to help target programmes effectively.
- 4.9. British Gas's Here to HELP scheme is a good example of this type of scheme. By working with charity partners it provides a package of products that include insulation, new boilers, benefits health checks and security devices. 500,000 homes are expected to benefit.
- 4.10. Powergen's HeatStreets seeks to insulate every property, street-by-street, creating whole zones of well-insulated, properly heated homes. Powergen rolled out the scheme in Sunderland, working with the City Council and an intermediary called 'Energy Services' to bring together all available grants to ensure maximum benefit to customers. During 2003 Powergen intends to extend the scheme to a further five areas, split between the East Midlands, East Anglia and the North West. 81,000 homes in Sunderland are expected to benefit in the initial rollout.
- 4.11. London Electricity Group and npower have similar partnerships with social housing providers, which are expected to benefit 31,000 and 125,000 customers respectively.

- 4.12. Investing in Energy is a scheme designed and operated by a partnership between West Lothian Council, Scottish and Southern Energy and Everwarm Services Ltd. The purpose of the scheme is to use funds from Lothian Council's capital programme and energy conservation budgets along with Energy Efficiency Commitment funds and the New Warm Deal to carry out improvement works closely targeted at areas likely to have a high incidence of fuel poverty. The flexibility of the funding allows householders from all tenures to benefit from a range of physical improvements at no cost and energy advice, benefits and money advice. To date improvements and advice have been delivered to 2847 homes. It is estimated that 2300 of these have been taken out of fuel poverty.
- 4.13. In a similar scheme, ScottishPower, in partnership with Transco, is aiming to deliver a broad range of energy efficiency measures throughout the local authority areas of South and North Lanarkshire. This will involve a team of trained surveyors establishing the heating and insulation requirements of homes and identifying potential funding sources that the householder might be entitled to.

### **Community Heating schemes**

- 4.14. Two suppliers have submitted community-heating schemes designed to provide low-cost heating to customers in social housing. One scheme in Rochester has involved the replacement of an old inefficient gas boiler with a new CHP plant to provide most of the heating and electricity requirements for a housing complex. Through another scheme, funding is being provided to a development in Poolsbrook in Chesterfield to facilitate the installation of a CHP community heating plant. This uses methane from a local landfill site. Both schemes will deliver carbon savings and lower bills for residents.

### **Ground source heat pumps**

- 4.15. Powergen have worked with the Metropolitan Housing Trust to install specially designed ground source heat pumps to provide central heating for low energy social housing developments in Nottinghamshire. The use of ground source heat pumps extracting the heat stored in the earth is relatively untried technology in the UK. The technology produces around 50 per cent less CO<sub>2</sub>

than a conventional gas boiler system and considerably less than electric storage heating.

### **Fridgesavers**

- 4.16. Two suppliers are operating a Fridgesavers scheme which, through local authorities or other agencies, allows a customer to replace a faulty fridge or fridge freezer with an 'A rated' model at minimal cost. This can bring savings of up to £60 per annum on customers' bills. Approximately 30,000 customers are expected to benefit from Fridgesavers schemes between 2002 and 2005.

### ***Good practice in energy efficiency advice***

- 4.17. The provision of good quality advice about relevant measures and grants, and about usage of appliances and heating controls, can help consumers make significant savings on their bills. It is estimated that many households could save up to £200 a year through adopting energy efficiency measures. Evidence suggests that well-focused advice can lead to fuel savings of around 10 per cent from behavioural changes alone<sup>6</sup>.

### ***Research into the quality of energy efficiency advice***

- 4.18. Electricity and gas suppliers are required to provide energy efficiency advice to their customers. This includes the operation of a telephone advice line. In June 2002 Ofgem published research carried out by New Perspectives and Taylor Nelson Sofres into the performance of these advice lines<sup>7</sup>.
- 4.19. This research was designed to establish the quality of advice being provided by suppliers and the extent to which advice and information influenced customers to improve the energy efficiency of their homes. It was divided into three stages:

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<sup>6</sup> Effective advice, Energy efficiency and the disadvantaged - Environmental Change Institute, December 2000

<sup>7</sup> Report on the quality of energy efficiency advice provided by gas and electricity suppliers – Research study by New Perspectives with Taylor Nelson Sofres, June 2002

### **(i) mystery shopper calls to suppliers' general call centres**

4.20. Mystery shoppers called suppliers' general call centres with a range of scenarios designed to signal a need for energy efficiency advice. Unfortunately call handlers did not always identify this need, even in a number of cases on being prompted. Only seven out of ten callers who phoned with a problem that should have been referred to a specialist energy efficiency advisor were actually referred on. In some cases callers were given inaccurate or incomplete advice by the call centre.

### **(ii) mystery shopper calls to suppliers' specialist advice lines**

4.21. Mystery shoppers called the specialist energy efficiency advice lines with a range of problems that would usually indicate vulnerability, low-income, the possibility of fuel poverty or eligibility for grants.

4.22. Generally speaking, call handlers were perceived to be professional and polite and the advice given was considered easy to follow. Advice on grants, when given, was considered to be a strong point, and generally specialist advisors were thought to be fairly knowledgeable. However, there were two main areas of weakness:

- ◆ because they rarely asked customers enough about their circumstances, advisors were unable to establish if the customers might be eligible for grants or whether the caller could benefit from measures beyond those that callers had specifically enquired about, and
- ◆ around 30 per cent of callers received no written information at all following their call to the advice line, while only 10 per cent received a Home Energy Report or energy audit questionnaire following their call.

### **(iii) researching the experience of customers who had received advice**

4.23. A sample of customers who had spoken to suppliers' specialist advice lines were surveyed to find out what they thought of the advice, and whether they had acted on it, or were intending to act on it.

4.24. The research found that seven out of ten customers who had received advice had either installed measures or were planning to do so in the near future. A

similar proportion of customers said they were following behavioural advice that they had received from the advice line. These figures were encouraging. However, less encouraging was the fact that 54 of the 113 customers interviewed were on benefit, yet only three had applied for a grant, with a further two intending to do so following their calls to the advice lines. Potentially all 54 could have been eligible for a grant.

### **Follow-up with suppliers**

- 4.25. Following publication of the report, Ofgem wrote to all suppliers inviting comments on the findings and asking for details of specific improvements that they were intending to make in the areas where they had performed poorly. Feedback from the suppliers was very positive. All suppliers welcomed the report and the opportunities it provided them to benchmark their services with other companies.
- 4.26. In the cases of TXU and Scottish Power, whose performance caused greatest concern, Ofgem has received assurances that improvements will be made to the quality of service provided to customers. Action being taken included increasing the number of trained personnel staffing the advice lines, integrating EEC and energy efficiency advice teams, installing systems to enable advisors to carry out energy efficiency audits over the telephone, ensuring printed literature is despatched the next day, and commissioning mystery shopper surveys to test service delivery.

### ***Ofgem proposals to promote good practice in the provision of energy efficiency advice***

- 4.27. Having considered the research findings, Ofgem consulted in October 2002 on how to build on the lessons of the research through the promotion of good practice<sup>8</sup>. This proposed that work should be taken forward in three ways:

#### **(i) suppliers should review their energy efficiency advice strategies in line with good practice**

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<sup>8</sup> Good practice in the provision of energy efficiency advice to domestic consumers – Ofgem, October 2002 (71/02)

- 4.28. Ofgem proposed that suppliers review their strategies on energy efficiency advice, focusing their attention on four key principles, as set out below:
- ◆ use calls to explore all the possibilities for improving the efficiency of the customer's home, ensuring that advice is relevant to the circumstances,
  - ◆ follow up calls with printed information, energy audits and visits where appropriate,
  - ◆ identify and help customers that might be eligible for grants, and
  - ◆ ensure easy access, professional help and positive outcomes.
- 4.29. Under each of these principles, Ofgem also identified some examples of good practice which suppliers were encouraged to adopt.
- 4.30. Suppliers were in general agreement. In the main, they were willing to review their energy efficiency strategies in line with the good practice proposed. Consumer groups also supported the substance of the guidelines, but some argued for a change in licence conditions to impose mandatory standards rather than the voluntary approach favoured by Ofgem.

**(ii) suppliers should sign up to the new Energy Efficiency Partnership for Homes (EEPH) code of practice**

- 4.31. Ofgem encouraged all suppliers to sign up to the EEPH code of practice. This code has been designed to set minimum standards for customer access, quality of advice, staff training and development, and service improvement for all organisations delivering domestic energy advice. It will be reviewed annually with the aim of continually raising the quality of domestic energy advice provision in the UK.
- 4.32. All suppliers but one expressed support for the EEPH Code of Practice, although some said they would await its publication before deciding whether to sign up.

**(iii) further monitoring of suppliers' performance, through follow-up mystery shopper research and collection of quantitative information**

- 4.33. Ofgem said it would continue monitoring performance. Further mystery shopper research would be undertaken in Autumn 2003 to measure the quality of advice being provided and check the extent to which good practice has been adopted. In addition to the current quantitative information, Ofgem would ask for details of the number of staff available to work on the advice line, qualifications held and number of energy audits provided. Consumer groups welcomed the commitment to further monitoring work.
- 4.34. In February 2003 Ofgem published "Good practice in the provision of energy efficiency advice", a leaflet setting out its conclusions on how work will be taken forward.

## 5. Other Policy Initiatives

- 5.1. In addition to the two key policy areas, Ofgem has continued to make progress under a number of workstreams, some of which began over 12 months ago. These are set out below.

### ***Improving services for prepayment meter customers***

- 5.2. Ofgem has worked with suppliers and energywatch to review the literature sent to prepayment meter customers on the installation of their meter. This follows research for the EA Fuel Poverty Task Force<sup>9</sup>, which found that one reason for prepayment meter customers self-disconnecting was a lack of knowledge about the operation of their prepayment meter and in particular the emergency credit facility.
- 5.3. Apart from making customers aware about the operation of their meters, Ofgem was concerned that information provided by suppliers should include an invitation to call if they find themselves having problems buying credit. Ofgem was also keen that suppliers drew customers' attention to the fact that energy efficiency advice might help reduce their bills. This initiative has resulted in improvements to the literature provided to prepayment customers by suppliers.

### ***Age Concern campaign***

- 5.4. Ofgem, in conjunction with Age Concern and energywatch, mounted a campaign to help older people keep warm in winter and to advise them of the savings available through switching supplier. The campaign was launched by TV personality Iain McCaskill at the St Margaret's drop-in centre, Pimlico, London in October 2002. The campaign received the backing of Energy Minister, Brian Wilson MP.
- 5.5. The primary focus of the campaign is to encourage older people to switch suppliers in order to save money. The campaign includes a leaflet containing

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<sup>9</sup> Fuel Poverty: Low Income, Prepayment Meters and Social Obligations, March 2001 – Centre for Management under Regulation at Warwick Business School and Centre for Competition and Regulation at the University of East Anglia  
Social Action Plan Annual Review  
Office of Gas and Electricity Markets



advice for older people on how to go about changing their supplier and how to deal with doorstep salespeople. The leaflet also contains information about how customers can access free additional services from their supplier by joining the Priority Service Register, and access advice about energy efficiency and claiming winter fuel payments. The leaflets and accompanying promotional material, including posters and information packs, have been distributed through local Age Concern offices. Ofgem and Age Concern are currently reviewing the effectiveness of the campaign.

### ***Researching the needs and experiences of minority ethnic groups***

- 5.6. Ofgem has further examined data from MORI research undertaken in 2001 and met with a number of organisations to establish the extent to which customers in different ethnic groups are benefiting from competition.
- 5.7. On an initial reading, MORI survey data suggests that non-white customers are just as likely to switch electricity supplier, but less likely to switch gas supplier, than customers generally. On interrogating the data further there was found to be a significantly lower incidence of switching, either gas or electricity, among African/Caribbean customers than for other groups.
- 5.8. Further interrogation of MORI data suggests that African/Caribbean customers are more likely to be on low-incomes and have no working members in the household, significantly less likely to pay for fuel by direct debit (even though they are just as likely to have a bank account and half pay other bills by direct debit) and more likely, along with Asian customers, to have difficulty paying their bills. In addition, DTI has estimated that the incidence of fuel poverty in black households is higher than that in white or asian households.
- 5.9. Discussions with organisations with first-hand experience of working with minority ethnic communities have highlighted some of the main issues, and identified what does and what does not work when targeting ethnic minority groups. For example, the Commission for Racial Equality suggested that barriers are more often financial, social or cultural and that the language barrier is often over emphasised as most ethnic minority families are now second or third generation. National Energy Action (NEA) emphasised the significant cultural,

linguistic and political differences between the disparate minority ethnic communities, which often makes it difficult to organise just one event or campaign.

- 5.10. Most organisations were agreed that to be effective any campaign would need to involve local voluntary groups, provide skills and knowledge to community representatives, make straightforward literature available for distribution, and offer ongoing advice and support.
- 5.11. Local authorities, in partnership with others, are well placed to raise awareness of customers in minority ethnic groups, possibly as part of their affordable warmth strategies. Ofgem has been helping London Borough of Camden and National Energy Action develop a pilot that encourages consumers from minority ethnic groups to think about how they can reduce bills through help with energy efficiency, switching supplier and changing to cheaper payment methods.

## 6. Priorities for the coming year

- 6.1. Ofgem will be building on the progress achieved so far in its programme of work for 2003-4. The main project areas for the coming year are:

### ***Researching companies' service to Priority Service Register (PSR) customers***

- 6.2. Each domestic electricity and gas supplier, electricity Distribution Network Operator (DNO) and gas transporter has licence obligations to maintain a register and to offer special help to customers who are of pensionable age, or disabled or chronically sick. Services to be offered by suppliers free of charge include: special controls and adaptors; repositioning of meters; password schemes; energy efficiency advice; quarterly meter readings; and redirecting of bills to a third party.
- 6.3. In addition, domestic gas suppliers have an obligation to provide, on request, a free gas safety check for such customers (unless they live with a person who is neither a pensioner nor a disabled or chronically sick person nor under 18 years of age). Distributors have obligations to give priority to vulnerable customers in the event of disruptions to supply.
- 6.4. The number of customers on the Priority Service Register and the number receiving a free gas safety check has reduced over recent years. Ofgem will undertake research into the help given to customers who are eligible for priority services, to assess the quality of these services and whether these meet customers' needs.

### ***Promoting awareness about competition and energy efficiency among ethnic minority groups***

- 6.5. Ofgem is supporting a pilot being run by the London Borough of Camden (LBC) and NEA to promote energy awareness among ethnic minority groups. The main objectives of the pilot are to:

- ◆ research the needs of local minority ethnic groups in relation to fuel poverty and energy efficiency
  - ◆ improve local minority ethnic groups' access to advice, and
  - ◆ provide local community representatives with the skills and support necessary to become community energy advisors.
- 6.6. Ofgem is assisting with the production and translation of training materials and consumer leaflets, primarily on switching supplier. In addition, Ofgem is discussing with LBC and NEA how the pilot can be most effectively evaluated and will consider how further work in this area can be supported.

### ***Carrying out follow-up mystery shopper research into suppliers' energy efficiency advice services***

- 6.7. In February Ofgem issued good practice guidance on the provision of energy efficiency advice to domestic customers. Ofgem will commission follow-up mystery shopper research in Autumn 2003 that will measure the impact of this work and test whether the lessons of the first mystery shopper research and the good practice guidelines have been applied.

### ***Investigating the cost of prepayment meters***

- 6.8. Ofgem is concerned that prepayment meter customers should pay no more than is necessary to support their method of prepayment. A study will be undertaken into the costs of prepayment meters, looking at the various elements of provision, operation and maintenance, and infrastructure. There may be scope for reducing costs through innovation or improved efficiency, which Ofgem is keen to encourage.

### ***Monitoring implementation of debt prevention strategies***

- 6.9. Following publication of debt prevention guidelines in January, energywatch and Ofgem intend to visit suppliers over the coming months to discuss the implementation of their strategies. Towards the end of the year, energywatch

and Ofgem will review suppliers' performance against the key deliverables. A formal review of the impact of the debt prevention work will be carried out in 2004.

### ***Implementing a new debt assignment protocol for prepayment meter customers***

- 6.10. Over the coming months, Ofgem will be progressing regulatory changes necessary to enable prepayment meter customers in debt to switch supplier. Changes have been agreed to the Master Registration Agreement (MRA) to enable the new debt assignment protocol to be introduced in electricity. Modifications need to be made to the Standard Conditions of the Gas Suppliers' licence to introduce the same process into gas. Ofgem expects to see the protocol implemented at the end of 2003.

### ***Integration of payment and energy advice for low income families***

- 6.11. Ofgem is pleased that it will continue its involvement with the Factor Four project, through funding the evaluation of a pilot project to be based around a credit union in Birmingham. The feasibility project for Factor Four was published last year as part of Ofgem's Social Action Plan research programme. Innogy and Severn Trent Trust Fund are supporting this pilot, with support also being provided by Barclays Bank. The Factor Four concept, which was developed by NEA and New Economics Foundation, with funding from Innogy, aims to integrate help for low income families in four key areas: energy advice; budgeting and money advice; the take up of energy efficiency measures; and bill payment. The pilot project will be launched during the spring.

### ***Other issues***

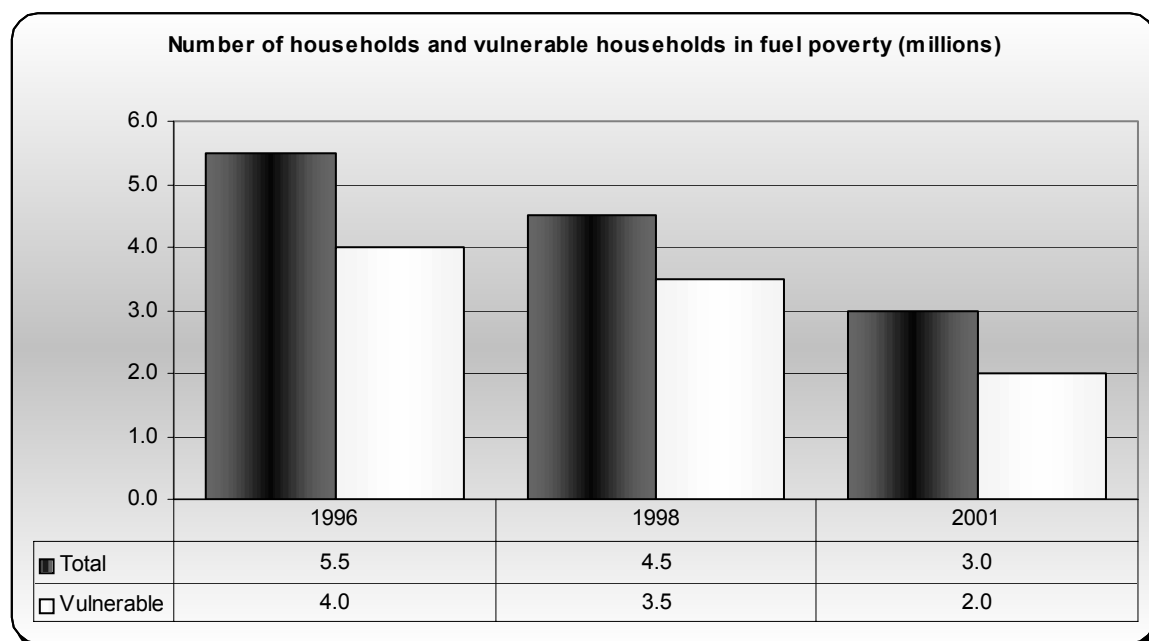
- 6.12. Among the range of other issues, Ofgem will consider what help can be given to promote awareness of competition and energy efficiency amongst customers in rural areas. Ofgem will continue work on monitoring the progress of suppliers in the EEC programme, and work with DTI and other government departments on Energy White Paper issues.

## Appendix 1 Social Action Plan Indicators

1.1 The Social Action Plan has a series of 12 indicators to monitor progress. The data for these indicators is drawn from a range of sources, including suppliers' returns under the codes of practice monitoring arrangements, information collected by DTI, and market research data provided by the Electricity Association (see methodology note at the end of this appendix).

### ***Indicator 1: Total number of households in fuel poverty***

1.2 The chart below shows the latest government estimates for the number of households in fuel poverty. The definition of a fuel poor household, on which the figures below are based, is one needing to spend more than 10% of its income (net of income tax and National Insurance and including Housing Benefit and ISMI) on household fuel use. Vulnerable households include people who are elderly, disabled and chronically sick and families with young children.



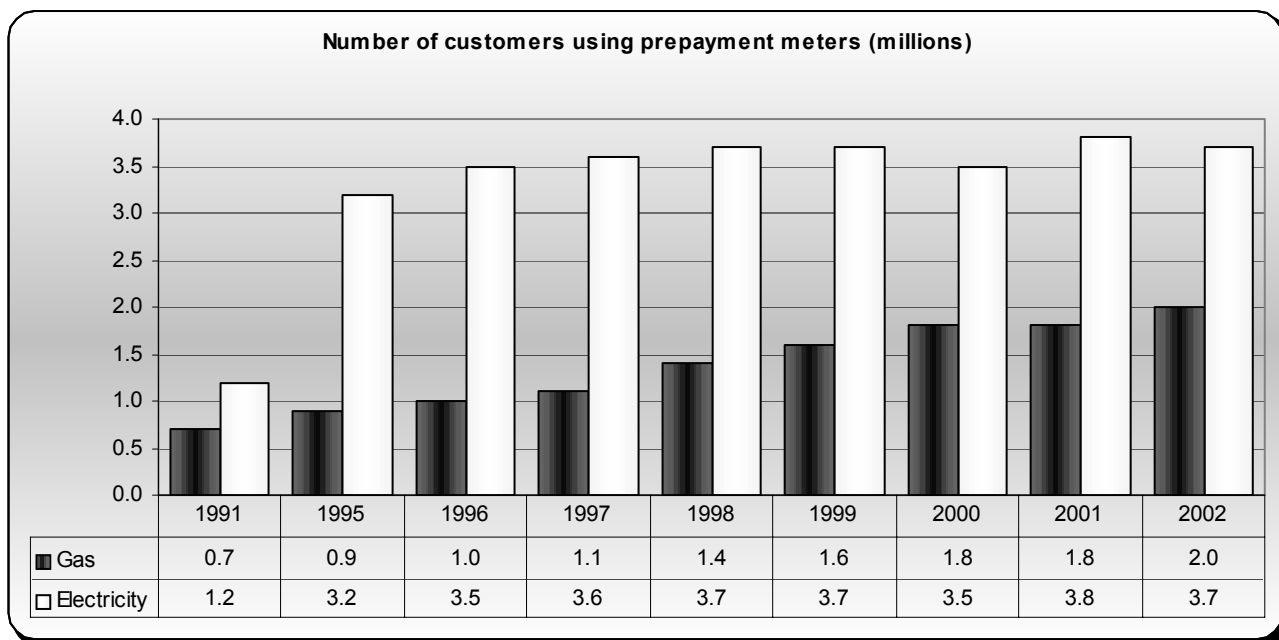
(Source: The UK Fuel Poverty Strategy 1<sup>st</sup> Annual Progress Report, DTI, March 2003.

Figures are UK estimates)

### ***Indicator 2: Number of customers using prepayment meters***

1.3 Prepayment meters are the most expensive method of paying for electricity and gas. Around half of gas prepayment meter customers and less than a sixth of

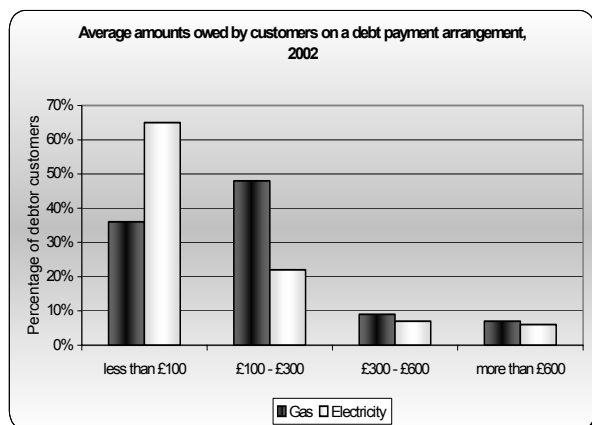
electricity prepayment meter customers are currently repaying debts. While the number of gas prepayment meters has risen slowly over recent years, the number of electricity prepayment meters remains stable. Many customers find these meters useful for budgeting.



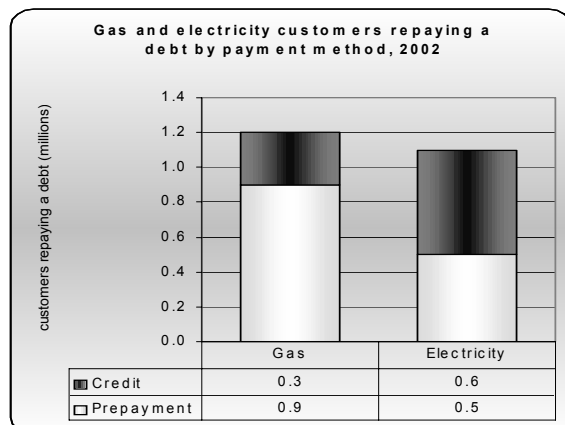
(Source: Ofgem)

### **Indicator 3: Debt repayment levels**

1.4 The charts below set out the number of customers repaying debt according to the size of debt and repayment method.

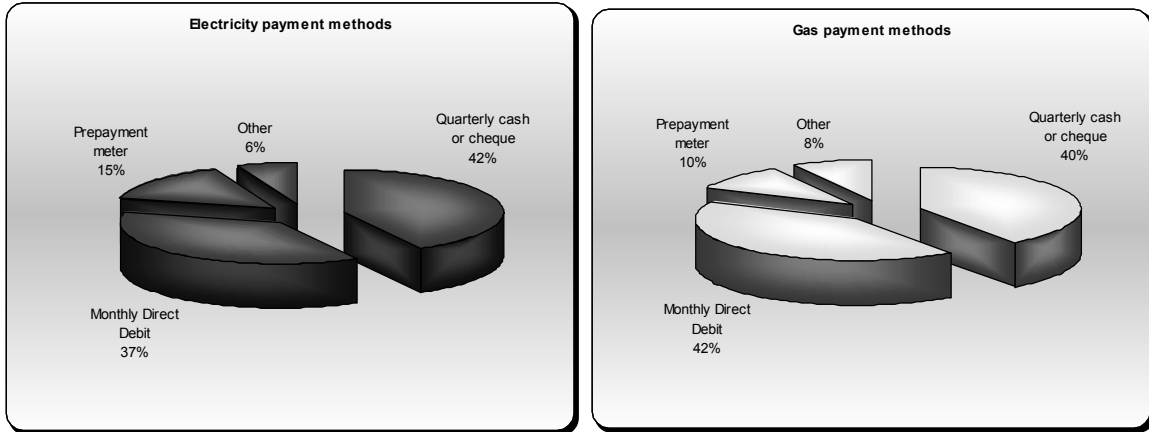


(Source: Ofgem)



### Indicator 4: Tariff and payment choice

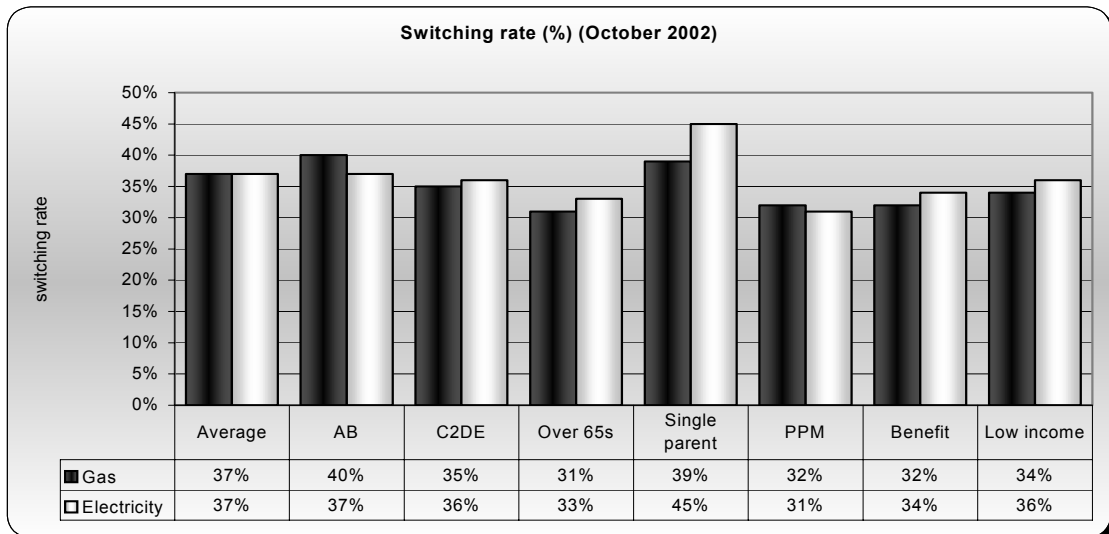
1.5 Around 9 million electricity and 8.5 million gas customers pay for their fuel by the cheapest method of monthly direct debit. 3.7 million electricity and 2 million gas customers pay by the most expensive method of prepayment. Numbers paying quarterly on receipt of their bill are just under 10.5 million in electricity and just over 8 million in gas.



(Source: Ofgem)

### Indicator 5: Switching rates

1.6 These figures reflect the numbers of households no longer with the incumbent supplier. Households that have switched more than once are only counted once. Households that have switched and returned to the incumbent are not counted. The figures do not reflect gross switching in the market.

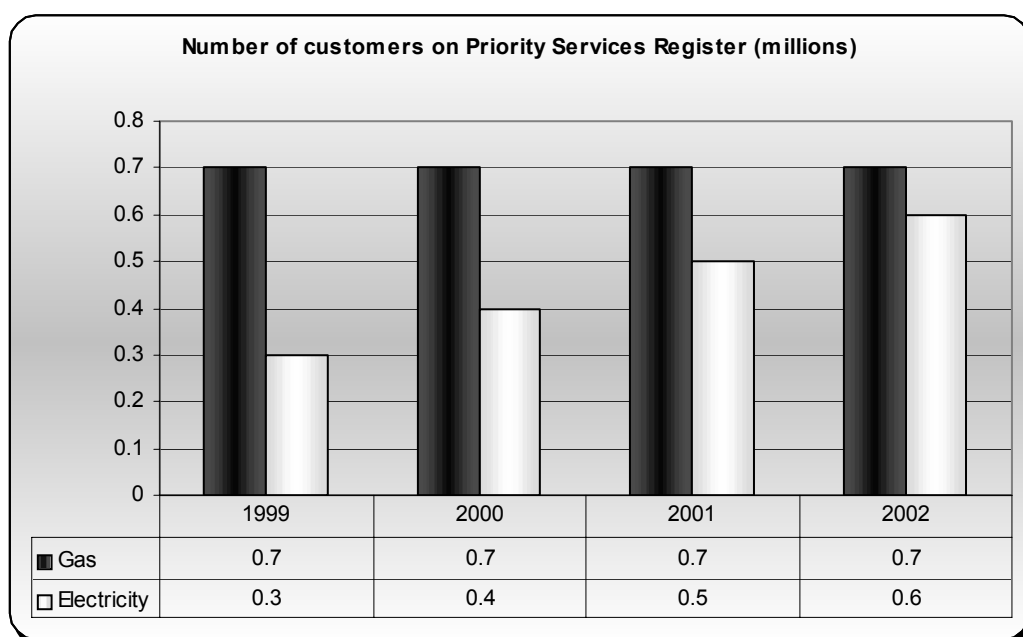




(Source: Electricity Association Market Monitor – see methodology note at end of this appendix)

### **Indicator 6: Priority Service Registers**

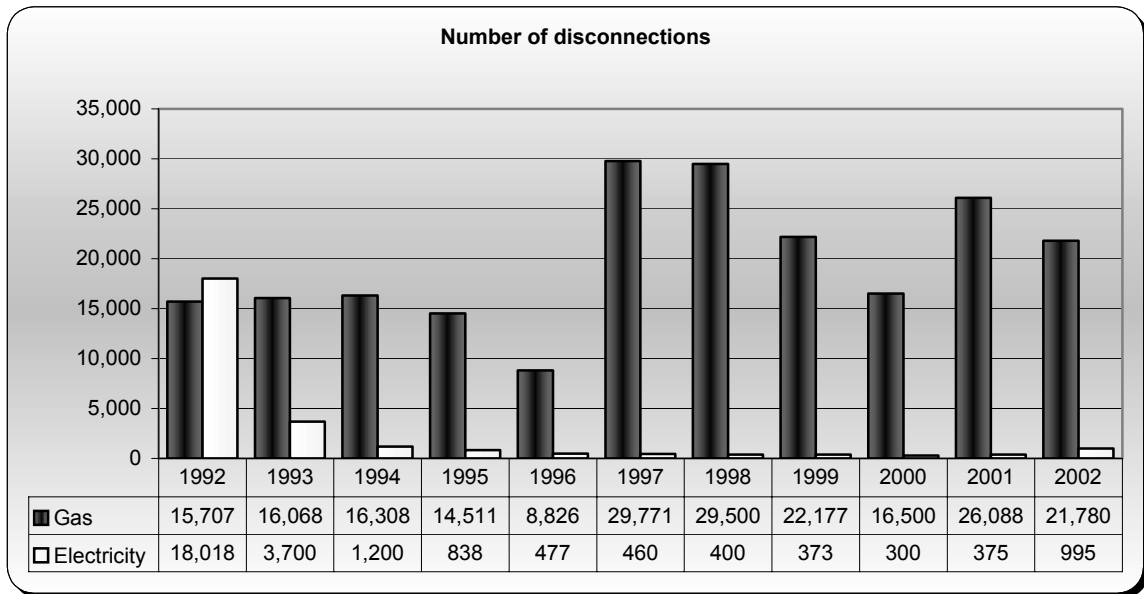
1.7 While numbers on the electricity registers have grown, numbers on the gas registers have stayed static. The number of free gas safety checks has dropped over the years to a new low this year of 15,303 customers. Less than 10% of customers who are eligible are on the Priority Services Registers.



(Source: Ofgem)

### **Indicator 7: Disconnections**

1.8 The number of disconnections in gas fell in 2002 following a steep rise in 2001. Problems with securing warrants of entry and prepayment meters, which had caused disconnections to peak during 2001, have been overcome. The increase in disconnections in electricity is largely due to two suppliers, npower Yorkshire and Scottish and Southern Energy, although other suppliers have seen less pronounced rises.



(Source: Ofgem)

### ***Indicator 8: Self-disconnections***

- 1.9 The proportion of households with prepayment meters that reported self-disconnection and its frequency in a study undertaken during 2000 for the EA Fuel Poverty Task Force is set out below.

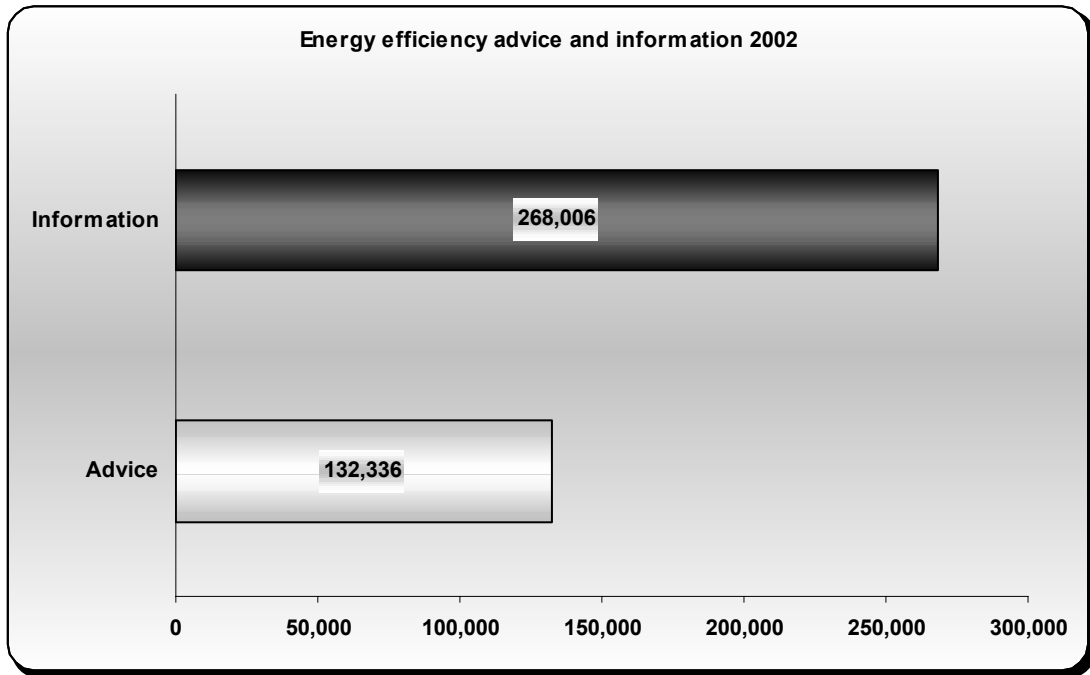
<b>Incidences of self-disconnection</b>	<b>electricity</b>	<b>gas</b>
None	76%	73%
Once	10%	8%
Twice	8%	9%
Three to twenty times	5%	8%
More than twenty times	1%	2%

(Source: EA Fuel Poverty Task Force)

- 1.10 Ofgem is considering how to supplement this research for later years.

### ***Indicator 9: Effective energy efficiency advice***

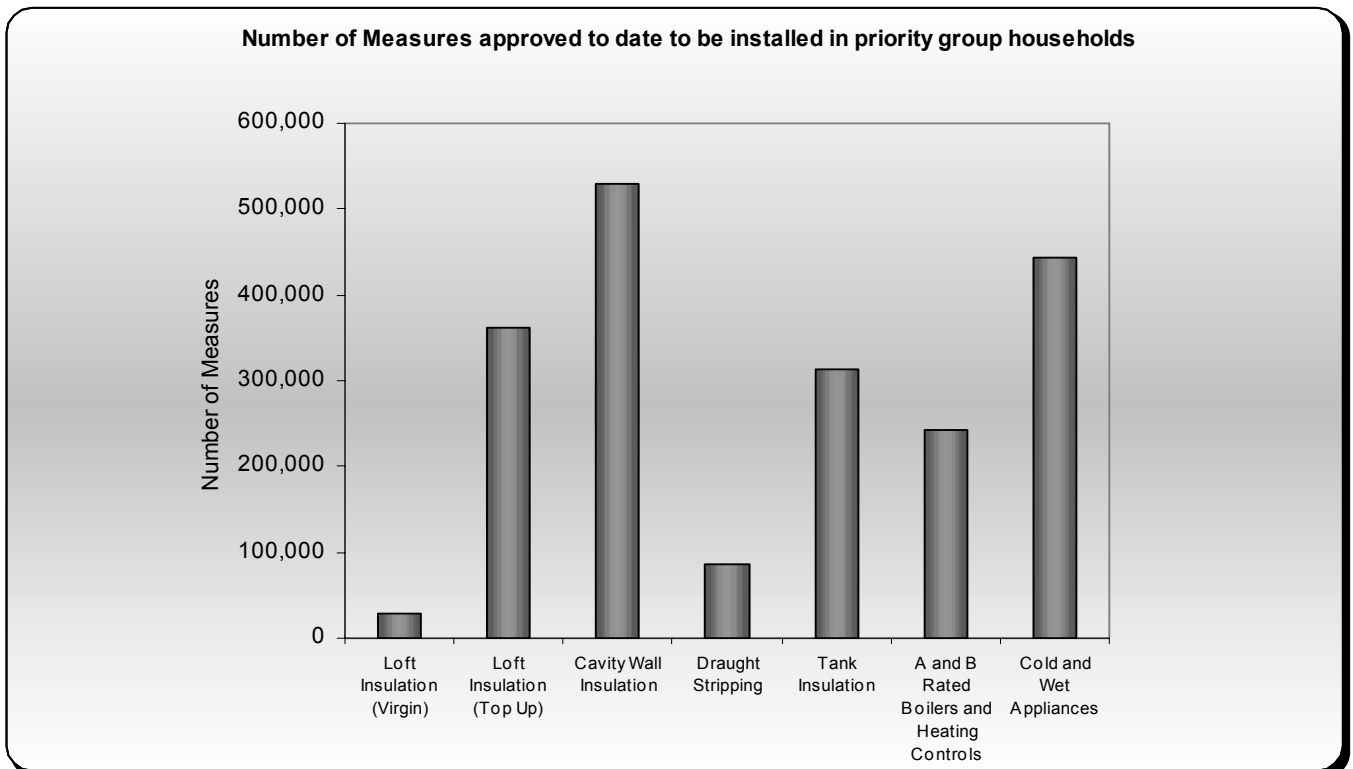
- 1.11 132,336 people received energy efficiency advice from their supplier in 2002, an increase of 27% on the figure for 2001. The number of customers receiving information in 2002 (in the form of printed literature) was 268,006, a drop of 12% on 2001. The majority of information was targeted at customers in debt.



(Source: Ofgem)

***Indicator 10: Warm homes initiatives***

1.12 The number of approved measures (excluding lighting) for the priority group under the EEC.

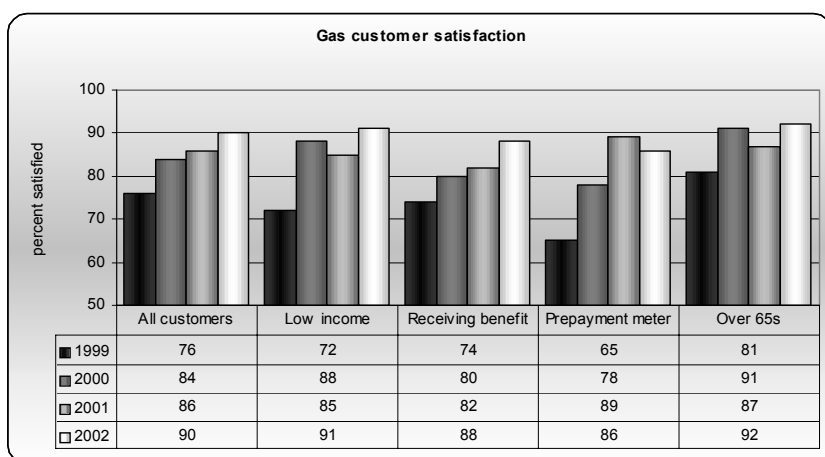
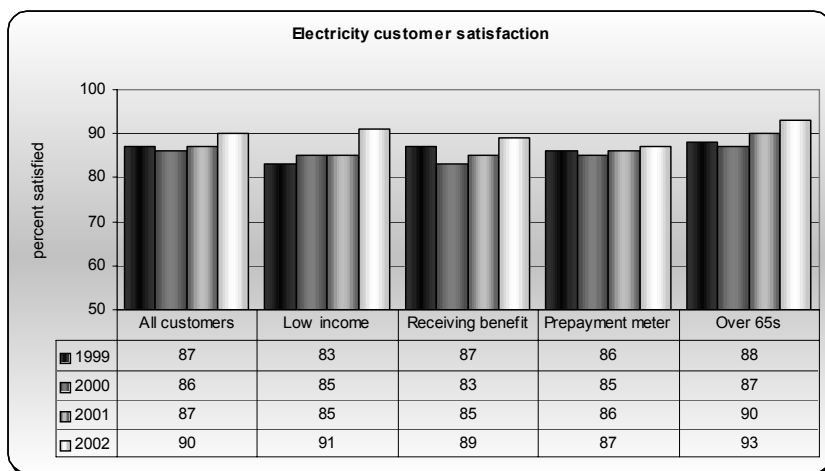


Measure	Number of measures approved	Annual saving per measure (£)
Loft Insulation (Virgin)	28,037	124.59
Loft Insulation (Top Up)	361,317	59.21
Cavity Wall Insulation	530,447	65.74
Draught Stripping	85,173	8.00
Tank Insulation	312,608	11.20
A and B Rated Boilers and Heating Controls	241,782	72.24
Cold and Wet Appliances	443,686	8.66

(Source: Ofgem)

### **Indicator 11: Customer satisfaction**

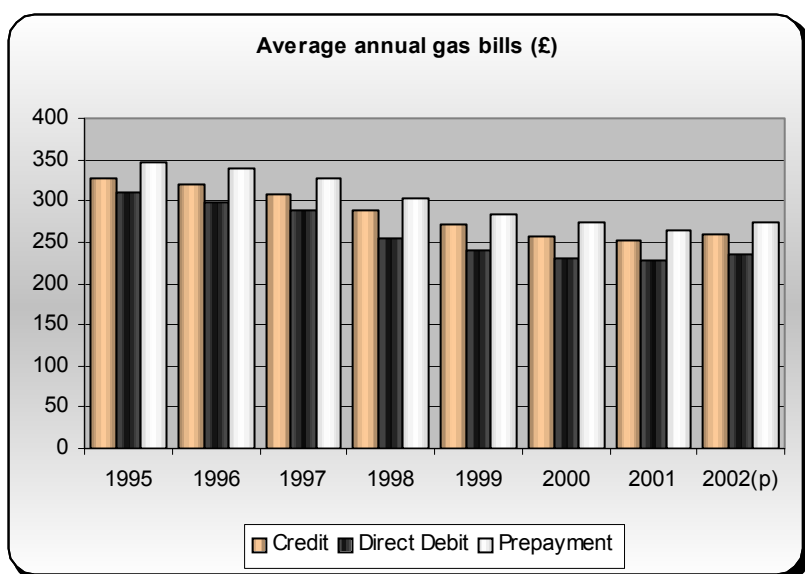
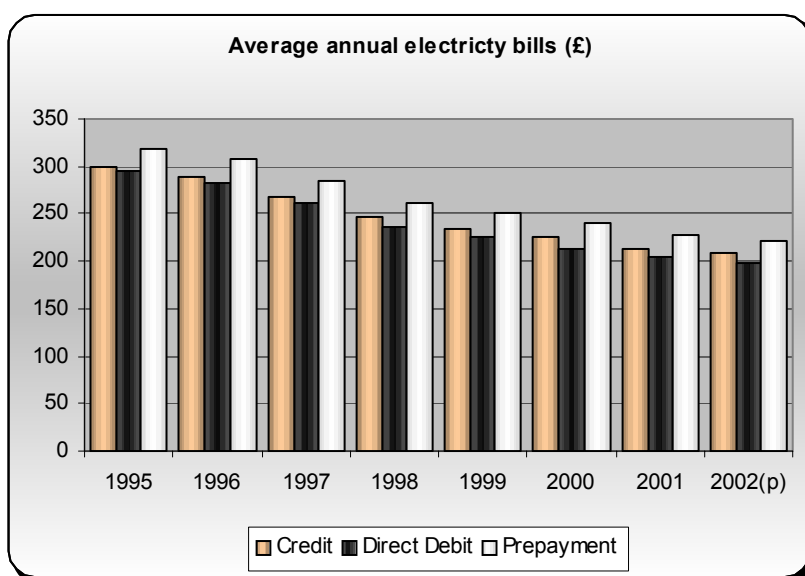
1.13 The charts below show levels of customer satisfaction for certain groups of customers compared to the average for 1999 to 2002.



(Source: 1999, 2000 and 2001 data provided by MORI. 2002 data provided by Electricity Association Market Monitor – see methodology note at end of this appendix)

### **Indicator 12: Prices**

1.14 Prices have dropped in real terms across all payment methods since 1995 for both gas and electricity. This has made a major contribution to reducing the number of households in fuel poverty. However, gas prices rose in real terms last year for the first time since 1995.



(Source: The UK Fuel Poverty Strategy 1<sup>st</sup> Annual Progress Report, DTI, March 2003)

## **Methodology note for Electricity Association market research data**

The Electricity Association runs a residential market monitor to provide a range of data to subscribers. The purpose is to provide measures of key indicators of trends in the electricity and gas markets. The survey is conducted by GfK Marketing.

The information on switching rates in Indicator 5 is based on information collected in October 2002 from a panel of around 15,000 households, via an integrated in-home, telephone and postal survey. The information on customer satisfaction in Indicator 11 is based on information collected in April 2002 from a sample comprising around 10,000 in-house face-to-face interviews. The information is broadly comparable with MORI data previously published by Ofgem, although the survey base for the EA data is considerably larger (ie, for Ofgem's last August / September 2001 survey, MORI conducted 2,310 face-to-face interviews).

## Appendix 2 Company social initiatives

2.1 Gas and electricity suppliers have formulated a number of innovative schemes to bring the benefits of competition to low-income customers and to deliver measures under the EEC. Details of some of these schemes are outlined in the table below.

Company	Name of Scheme	Description of scheme
British Gas	Here to HELP	This is an EEC funded scheme aimed at 500,000 households over 3 years. The scheme takes a partnership approach, working with local authorities and charities. Assistance offered includes energy efficiency measures and grants, benefits healthchecks, security measures and referrals to caring agencies.
	REECH (Realising Energy Efficient Communities and Homes)	This is a pilot scheme targeting 3,000 households in London, Bradford, Oldham and Rochdale. This takes a partnership approach, working with NEA to target energy efficiency advice and measures to fuel poor households in ethnic minority communities.
	Warm-a-life	This is a partially EEC funded scheme aimed at 70,000 existing British Gas customers. In addition to free energy efficiency measures and benefits healthchecks, there are financial benefits including capped price electricity (until 2004) and one-off discounts of £10. British Gas estimates 25% energy savings for households in receipt of energy efficiency measures and additional income of £850 from recipients of benefits healthchecks.
Innogy	Factor Four	This is a pilot scheme in Birmingham which follows on from research carried out under the Social Action Plan. Factor Four is an integrated service offering energy advice, budgeting and money advice, energy efficiency measures and bill payment. The scheme is likely to be administered through local credit unions.
	Health Through Warmth	This scheme is a referral mechanism that has so far assisted 3,100 households. The scheme works by training district nurses, health visitors and community volunteers to recognise households in poor living conditions that are in need of energy efficiency measures and refer them on to a specialist team. The team then links the clients to grants such as Warm Front. The scheme was initially set-up using some EESoP 2 money, but is not EEC funded. The scheme is currently expanding from the West Midlands to other local authority areas.
LE Group	PowerkeyPlus	This is a pilot scheme assisting 277 prepayment customers. Customers receive a discount equivalent to the elimination

		<p>of the prepayment surcharge (putting them on the same rate as a standard credit customer) in exchange for paying for any call outs. One aim is to reduce incidences of self-disconnection by encouraging better energy management.</p>
	Energy with Care	<p>This is a partnership scheme with WRVS that assists 100 PSR customers in the SWEB region. Especially vulnerable customers (such as those who require electricity for medical equipment or those who are elderly and frail) are visited in the case of a power cut to ensure that they are okay.</p>
(Seeboard)	energycare	<p>This is a referral network run in partnership with ecsc. Volunteers from local authorities and charities are trained to recognise people in likely need of energy efficiency measures. Additionally, they are able to provide energy efficiency advice in the home. The scheme receives some EEC funding and has generated 5,000 referrals.</p>
NGC Transco	Affordable Warmth	<p>This is a fuel poverty programme aligned with the Government's Fuel Poverty Strategy. It aims to benefit up to 1 million homes. Since its launch in June 2000 over 152,000 houses have benefited from the programme and a further 12,000 applications have been received. The programme helps tackle fuel poverty on three fronts by:</p> <ul style="list-style-type: none"> <li>- Providing a financial solution, known as 'heat leasing', to underpin the installation of adequate heating equipment;</li> <li>- Unlocking other sources of funding to improve building fabric; and</li> <li>- Helping develop local training courses in energy efficiency and gas industry skills.</li> </ul>
Powergen	Age Concern Energy Services	<p>This is a commercial tariff aimed at the over 60s. The tariff offers a cold weather payment and some EEC funded energy efficiency measures including light bulbs and kettles. Numbers on the scheme are commercially confidential, but are healthy.</p>
	Benefit Healthcheck Pilot Scheme	<p>This has been targeted at 1,000 regular cash paying Powergen customers. 30% of those tested qualified for extra benefits. The average additional income was £1,500 per year.</p>
	Deaf Pilot Scheme	<p>This scheme, based around Nottingham deaf club, offers customer services in sign language via videophone. Free (EEC funded) insulation measures have been targeted to 200 members of the club.</p>
	HeatStreets	<p>This is a partnership scheme with Sunderland local authority targeting 80,000 homes in the city. The approach is to insulate all homes, whether fuel poor or not. Around 20,000 homes are to be targeted in the first 3 years of the scheme. A range of energy efficiency measures including</p>



		insulation, heating system and low-energy lighting will be offered.
(TXU)	Energy in the Community	This is a partnership scheme with Barnsley Metropolitan Borough Council and based in Thurnscoe, South Yorkshire. It has targeted energy efficiency advice and measures at the entire village, assessing 2,039 households, referring 922 for grant assisted measures.
	Staywarm	This is a commercial tariff offering fixed-price energy regardless of usage. Aimed at the over 60s, the tariff has over 250,000 customers. Staywarm also refers eligible customers for Warm Front grants and measures.
Scottish and Southern	Budget Warmth	Under this scheme, customers have an unmetered electric storage heater installed in one room of their house to provide fixed-cost heating, with payment spread across the year.
	Equipower/Equigas	Under this tariff, all customers pay the same price, regardless of payment method. This means that prepayment meter customers are effectively subsidised by direct debit and credit customers who voluntarily forego their discounts.
Scottish Power	HACTEnergy	This provides a packaged service that is tailored to meet the needs of some of the most vulnerable members of the community. The package consists of a free Benefits Healthcheck, a freephone advice service, and a Scottish Power contribution to the HACTEnergy charitable fund for each newly registered customer.
	HelpCo	This scheme provides packaged energy services for domestic customers. The Helpco package, operated by GLEEN, includes energy efficiency measures, energy monitoring, advice and finance, and the benefits of direct debit energy supply prices.
	NestMakers	This is a joint Scottish Power and EAGA initiative, which uses a neighbourhood based approach. NestMakers local advisers offer disadvantaged households the opportunity to heat their homes more effectively through the provision of energy efficiency measures and flexible bill payments.
British Gas, Innogy, LE Group, Transco and Powergen	Warm Zones	Warm Zones are a joint government and industry initiative which take a systematic approach to identifying and assisting fuel poor households through home assessments. There are 6 zones, in Newham, Sandwell, Northumberland, Stockton, Hull and Cleveland and Redcar.

## Appendix 3 Review group membership

3.1 Current membership of the Social Action Plan Review Group is as follows:

- ◆ Charles Berry, Director, Energy Supplies Division, Scottish Power
- ◆ Mark Clare, Managing Director, British Gas\*
- ◆ William Gillis, Director, National Energy Action\*
- ◆ Peter Lehmann, Chairman, Energy Saving Trust (EST) and Fuel Poverty Advisory Group\*
- ◆ Joan MacNaughton, Director General (Energy), Department of Trade & Industry
- ◆ Dr Gill Owen, Chairman, Public Utilities Access Forum\*
- ◆ Ann Robinson, Chairman, energywatch\*
- ◆ Andy Duff, Managing Director, npower

(\* denotes a member of DTI Fuel Poverty Advisory Group)