

energywatch response to Ofgem Social Action Strategy

Ofgem's second five year Social Action Strategy is a timely publication, coming as it does midway between the publication of the UK Fuel Poverty Strategy in 2001 and the deadline for meeting the target to eliminate fuel poverty in vulnerable households by 2010.

It also comes at a time when the falling prices and cheap energy prevalent at the publication of the document's predecessor seem a distant memory. That era of falling prices greatly contributed to significant reductions in the numbers in fuel poverty. The present climate of soaring prices is fast eroding that progress. The National Right to Fuel Campaign / NEA research that energywatch co-sponsored confirms what various interested parties have long suspected - that rising prices look set to threaten the government's fuel poverty targets.

At the turn of the millennium competition saw the market deliver benefits in terms of lower energy costs to consumers across the board. These were of proportionately greater benefit to low-income and fuel poor consumers. However, by the same token it will be these very same consumers who are feeling the harshest impact of rising prices. Where the market had worked in their favour, it is now working to their disadvantage. While energywatch acknowledge and support the introduction of socially oriented products by suppliers, the market as it stands is effectively leaving behind the worst off consumers, as rising prices mean that adequate levels of power, warmth and light look set to become a luxury item for increasing numbers of low income consumers. In an era of escalating prices, competition and switching now offers little in the way of mitigation for those in fuel poverty.

Therefore, it is now more important than at any time in the 5 year lifespan of the previous Social Action Plan for Ofgem to deliver on its Statutory Obligations to priority consumers, particularly those in fuel poverty and on low incomes. In the original Social Action Strategy, published in 2000, Ofgem recognised that they had "an important contribution to make in tackling fuel poverty". The importance of that role has not diminished - those suffering from, or at risk of, fuel poverty require a more engaged and more effective regulator to protect and promote their interests than at any time in the previous five years.

It is within this context that energywatch respond to the Social Action Strategy for the coming five years.

Comments on Social Action Strategy action points

(paragraph numbers reflect those assigned to specific points in the Ofgem document)

Theme I: Regulatory obligations, monitoring & reporting

3.4: energywatch will support the principle of deregulation, providing that Ofgem is able to realistically determine the extent to which competition is delivering for consumers. We continue to have serious concerns about the transparency, consistency and accountability of alternate forms of regulation such as self-regulation or codes of practice and their ability to provide adequate protection for priority consumers. energywatch has suggested that Ofgem should formulate a clear model of how vulnerability arises in the energy market context, what risks it poses to the public interest and the costs and benefits of different levels of regulatory response.

The review has the potential to bring to the fore a tension between Ofgem's obligation to protect the interests of vulnerable consumers and its desire to roll back sector-specific regulation. energywatch will seek to see a resolution that ensures the protection available to vulnerable consumers is safeguarded and enhanced in instances where an enhancement can be shown to be required. energywatch will not want the outcome of the review to be a situation where "proportionate protection for vulnerable consumers" equates with diluted protection.

3.5: energywatch support the move to streamline data where that data is not used, or where there is duplication. We would also like to see a mechanism whereby the accuracy and consistency of data provided can be tested and verified at agreed intervals. As well as removing some reporting areas, energywatch will discuss with Ofgem the scope for new sections that will provide us with a better understanding of companies' behaviour, particularly in relation to debt and disconnection and billing issues.

energywatch would also welcome a clarification of whether data collection will again be reviewed following the completion of the supply licence review, given that these will affect the Licence Conditions on which the monitoring statistics are based.

The commitment at 3.5 to explore ways in which data collected could be made more accessible to customers is positive. energywatch would like to see a set of indicators produced for consumers that provide a useable and understandable analysis of company performance. We would be happy to work with Ofgem on developing and publicising such indicators.

3.7: The views of energywatch on Ofgem's powers to make regulations extending the payments that can be collected through a prepayment meter were set out in detail in our consultation response.

Theme II: Best practice & research

3.11: energywatch welcome Ofgem's commitment to continue monitoring companies' performance in relation to debt. We look forward to finding ways of working with Ofgem to develop a process which ensures the vigilance facilitated by the Sohn Report can be maintained and that both organisations continue to monitor progress in relation to the implementation of the debt and disconnection guidelines. While it may not be desirable to undertake a full review of the guidelines every year, energywatch hope to work with Ofgem to develop a process for producing an annual progress report for the intervening years, ahead of a further full review.

3.12: energywatch look forward to making constructive suggestions on how the PSR might be improved at the supply licence review. These will be based on the research undertaken with Ofgem, and the better understanding of the experience of vulnerable energy consumers that this will provide.

3.13: Ofgem's commitment to explore best practice in relation to benefits entitlements checks is also to be welcomed. Increased income has been shown to make the most significant impact on fuel poverty, it is therefore vital that benefits identified are translated into actual income for those consumers assisted by checks. Following the application process from start to finish will also provide a much clearer picture of the impact – in terms of level of income gained and the difference that makes – that benefits entitlement checks are having. energywatch believe that a standardised approach to administering benefit health checks should be adopted by all involved in delivering them. The identification of best practice will help take this forward and energywatch would be happy to work with Ofgem, agencies providing benefits entitlement checks, suppliers and the Department for Work and Pensions to develop such a standard process.

3.14: Ofgem's funding of the fuel poverty indicator for use in targeting fuel poverty programmes at local authority ward and sub-ward level across England is also to be welcomed. It is to be hoped that Ofgem will promote the use of the indicator amongst suppliers so that they can identify where their fuel poor customers are concentrated and target assistance at them accordingly.

Theme III: Knowledge & influence

3.17a: energywatch are pleased to see that Ofgem are poised to stimulate early discussion on the next phase of EEC. Against the backdrop of rising prices there is a pressing need to (re)consider the objectives of EEC. Although EEC's origins lie in a desire to reduce carbon by reducing energy, the introduction of the priority group to ensure fair distribution has given EEC a default fuel poverty objective.

While the latter objective is welcome it somewhat compromises the carbon saving goals. Those in fuel poverty are not likely to be profligate users of energy. Therefore the EEC priority group is, through necessity, likely to be a low carbon group compared with the fuel rich. EEC measures have therefore been used within this group to ensure the energy used keeps the consumer warmer for longer, rather than encourage further reductions in energy use. Therefore, the dual objectives of EEC need decoupling to reflect the differing objectives required between the priority group and non-priority group. Better integration with Warm Front is a must if priority groups consumers are to receive all of the assistance to which they are entitled.

3.17b: The support that Ofgem is giving to the coalition of consumer bodies and utility industry representatives that are pressing for reform of Fuel Direct and the entire Third Party deductions scheme is welcome. It is to be hoped that, between us, some breakthrough can be made on this in the coming months.

3.17c: Self disconnection because of inability to pay (or because of technical problems beyond consumer control) remains a concern for energywatch also. energywatch are impressed by the potential that smart metering has for guarding against self-disconnection. As the energywatch paper *Get Smart: Bringing meters into the 21st Century* highlights, smart meters have great potential to mitigate against a number of the problems that commonly affect vulnerable consumers.

Theme IV: Information for customers

3.21: energywatch look forward to continuing our work with Ofgem on the Energy Smart campaign. Escalating prices across the board will necessitate that our emphasis migrates from switching to the importance of energy saving, and linking people to the assistance and advice that is available to them. In order to translate awareness into change we will increasingly need to utilise horizontal, local modes of communication further discussed at 3.22 below.

3.22: energywatch agree that it is essential for ways to be found of encouraging consumers to accept the assistance that is available to them. In addition to working with suppliers (and ourselves) on this, energywatch advocate the involvement of third parties who have the knowledge and hands on experience of communicating with the consumer groups that we consider to be vulnerable, so that existing best practice can be drawn on.

As Ofgem acknowledge in the Strategy, “localised community initiatives and partnerships were found to be particularly effective in building trust and reaching vulnerable consumers”. This “act local” theme was reiterated in the research that Ofgem have recently undertaken into suppliers’ social initiatives, and practical solutions have been set out in Mervyn Kohler’s paper for the DTI. Therefore, as local solutions appear to offer the most effective way forward Ofgem’s dialogue needs to be wider than the usual suspects, and should seek advice from those with expertise and a track record in local delivery, whatever field that might be in.

3.23: energywatch are now in receipt of Ofgem’s response to the billing Super Complaint. Where appropriate, we shall be engaging with industry and making a significant contribution to the development of the outputs recommended by Ofgem in response to the Super Complaint.

Beyond this, we are further considering the response published by Ofgem and the basis for its decisions and recommendations. As a consequence, this may feed in to activity associated with the Ofgem Social Action Strategy.

General remarks

energywatch welcomed Ofgem's review of suppliers' social initiatives. However, while this was useful in demonstrating and quantifying the assistance that suppliers now offer, there is a shortage of analysis on how effective this assistance has been. The work that Ofgem have committed to undertake in relation to benefits entitlement checks at 3.13 begins to address that shortfall. energywatch would like to see a similar analysis of the effectiveness of the other social initiatives that suppliers are now offering.

The document neglects to mention technologies that are likely to enter the mainstream during the Strategy's lifetime. Both microgeneration and smart metering, for example, could play a valuable role (particularly in combination) in bringing benefits to the fuel poor over the coming five years. energywatch would like to see Ofgem playing a much more proactive role in examining this potential and seeing what it needs to do (in terms of removing barriers etc.) to facilitate their development.

energywatch are surprised that the Social Action Strategy fails to make any mention of disconnection (other than self-disconnection). While we acknowledge that the ERA safety net has the potential to make a significant impact on disconnection levels amongst vulnerable consumers, Ofgem vigilance is still required on this.

An emergent problem that energywatch are picking up is the recalibration of PPMs following price rises. As prices rise are becoming increasingly frequent this presents the potential for significant problems:

- 1) Especially if the consumer carries on paying as normal, only to find that they've actually underpaid (hence defeating the purpose of them having a PPM in the first place) and then be landed with a bill for the difference, which could prove unmanageable or at the very least cause unnecessary distress.
- 2) There is scope for overpayment if the consumer switches before the meter is recalibrated by the old supplier and the new supplier fails to recalibrate because they assume the previous calibration to be higher than their tariff.

Given that PPM use is concentrated amongst low income consumers, energywatch would like to see Ofgem taking action to resolve this.