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Social Action Strategy

Dear Dave,

Thank you for the opportunity to comment on Ofgem's Social Action Strategy ('the Strategy'). This response can be placed in the public domain.

Introduction

In the opening paragraph of the foreword, you acknowledge the dichotomy between the Government's target of eradicating fuel poverty in vulnerable households by 2010 and the difficulty of achieving this target in the light of increasing energy prices. This is reinforced by the reference in paragraph 1.1 of 'Background' where you cite DTI data indicating that the number of households in fuel poverty has increased by 200,000 in since 2003 as a result of higher fuel prices. According to the most recent DEFRA/DTI report into fuel poverty¹, this is a reversal of a trend which from 1996 saw the number of fuel poor fall from 3.9 million to 1.2 million in 2003.

Furthermore, it has to be recognised that fuel poverty is a multi-faceted problem influenced by income, household status, housing condition, as well as fuel costs. Again DEFRA/DTI state that 61% of the reduction in the number of fuel poor since 1996 can be attributed to improvements in income, 17% (of the reduction) to household efficiency improvements and 22% to fuel price changes. Government therefore accepts that improvements in income were and remain the most important factor in reducing fuel poverty².

While the number of fuel poor is likely to increase further given the recent price rises announced by some suppliers, caused by continuing pressure on wholesale prices and environmental costs (for example, those imposed by the expansion of renewables and EEC2), the actual number will depend on the mix of factors above. Also, given that there exist several definitionally separate but socially overlapping groups (fuel poor, priority customers, vulnerable customers, PSR customers), whose membership is set by different parameters for different reasons associated generally

¹ The UK Fuel Poverty Strategy 3rd Annual Progress Report 2005, paragraph 4.5

² Op-cit, paragraphs 4.9 and 4.10

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with fuel poverty, suppliers need to be clear that they are adopting a consistent and efficient approach in their dealings with them. For example, qualifying criteria for Warm Front and EEC are different, although the benefit derived by eligible customers for either are, in effect, the same. Using one group as a proxy for another too may not be helpful in terms of focussing scarce resources (again for example, not all PSR customers will be fuel poor).

Addressing the issue of fuel poverty is not something that can be done in isolation. Suppliers will not know who all their fuel poor customers are and the Strategy recognises this through its multi-strand approach with roles for Government, Ofgem and suppliers. As we have said before, local government, health related and other non-profit sector bodies could also help here because of their local knowledge. The information and assistance that they could provide may, however, be constrained because of data protection or other legal restrictions. Perhaps this could be examined in more detail. As well, it needs to be clear whether Ofgem will act as co-ordinator of any necessary or desired change or argue for and facilitate this where appropriate.

Suppliers are bringing forward their own initiatives through, inter alia, their corporate social responsibility ('CSR') programmes. RWE npower's CSR programme has been recognised nationally as we were ranked in the Top100 'Companies that Count' (published in the Sunday Times in April). There are then, clear benefits of to be derived from CSR programmes for both recipients of the initiatives and originating businesses. However, it may well be that if costs of the initiatives increase, the benefits become less tangible.

Ofgem's workplan

We support the four key themes identified in paragraph 2.12, namely: (i) compliance with regulatory obligations; (ii) encouraging best practice amongst energy suppliers; (iii) influencing the debate about measures to help tackle fuel poverty; and (iv) informing customers about ways to lower their energy bills. Taking the action by Ofgem under these four themes as the basis for our response, they are dealt with below by reference to the appropriate paragraph number in the Strategy document.

Theme I: Compliance with regulatory obligations

Paragraph 3.4. Specific reference is made to the Disability Discrimination Act ('DDA'). We would be interested to understand further what are Ofgem's specific issues with the legislation, there is an overlap between the DDA and Standard Licence Conditions 37 and 38 of the gas and electricity supply licences. On the supply licence review, RWE npower is actively engaged in this process. We note that Principle 2 of that review's framework it deals specifically with vulnerable customers and that one of the working groups to be established under the review will deal with vulnerable customers. We support this.

Paragraph 3.5. We are consulting with Ofgem through the ERA on changes to the code of practice quarterly returns.

Paragraph 3.6. Please see our comments below on the suggestion as to how to promote services for priority customers through, for example, distribution companies' price controls.

Paragraph 3.7. We have already commented on Ofgem's proposals to extend the

range of payments through prepayment meters and await its response. As we indicated, there are a number of issues to be resolved before some of the changes suggested could be made.

Theme II: Best practice and research

Paragraph 3.11. We agree with the adoption of best practice across suppliers. Mention is made of Factor Four, which, as you know, RWE npower continues to co-sponsor. This holistic approach of tackling not just fuel indebtedness, but the reasons behind it together with solutions to tackle financial exclusion, accords with our own Spreading Warmth programme of helping customers to help themselves.

Paragraph 3.12. We look forward to the findings of the research into the present PSR arrangements.

Paragraph 3.13. We provide a benefits health check to eligible customers, but as is recognised, establishing how many take up their entitlement, and why some do not requires further research. Under Spreading Warmth, we will have a better knowledge of take up and advise customers accordingly. However, telling customers of their entitlements and then checking that they been taken up must not stray into the realm of hectoring. No doubt this and other matters regarding benefits entitlements will be considered at Ofgem's workshop on 18 October.

Paragraph 3.14. We are supportive of the Centre for Sustainable Energy's and the University of Bristol's development of a fuel poverty indicator.

Theme III: Knowledge and influence

Paragraphs 3.15 - 3.17. You mention discussion on the next phase of EEC and more refined targeting of the fuel poor along with interaction of other poverty alleviation schemes, such as Warm Front. See our comments above on qualifying criteria. While we agree with more effective targeting of EEC, it seems unlikely that it will have the desired level of impact given that the majority of local authority and social housing has been refurbished by existing or earlier schemes. This leaves private rented accommodation which is a much more diffuse sector. As such then, the effect of energy efficiency will, it is contended, soon be subject to diminishing returns.

New approaches may therefore be needed, and one is mentioned in paragraph 3.6 which talks about awarding distribution companies through their price control to promote good practice. It would be interesting to understand in more detail more how this would work. Could it be extended to provide a wider range of support for vulnerable or fuel poor customers? If the numbers of fuel poor did rise significantly, then the present arrangements in place or being trialled would impose considerable additional costs on suppliers where the support offered by means of social tariffs also had to increase accordingly. Whether this would be sustainable or some other means of additional funding was required, perhaps via a bigger contribution from distribution businesses is a debate to be had. We would be happy to have the discussion with you on this and other matters as regards where suppliers might go from here in developing ideas on tackling fuel poverty.

Fuel direct is still seen as an important part of suppliers' means for dealing with customers in receipt of benefit. With the move to the electronic payment of benefits to bank accounts, other payment methods, for example, direct debits may be suitable for

some customers but not all.

Theme IV: Information for customers

Paragraph 3.21. While more information to customers is always welcomed, the difficulty is always to engage their interest, so that they will react accordingly.

Paragraph 3.22. Linked to 3.21 is perhaps the implied suggestion of an Ofgem endorsement of suppliers' initiatives for helping vulnerable customers. Obviously the practicalities of doing this would need to be discussed, but it would seem sensible to have such an imprimatur to help overcome any customer scepticism.

Conclusion

The Strategy is helpful in moving forward the debate on fuel poverty recognising that suppliers are producing initiatives to help poorer and vulnerable customers. It seems certain that if the present global position regarding energy production and consumption persists, more help will be necessary. This may then well require a more direct approach from Government. This in turn will widen the debate as to how the cost of serving these customers ought to be met. Perhaps this is something that might be raised at the forthcoming Ofgem seminar.

Yours sincerely

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