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A large green circle containing the title 'Social Action Strategy' in white and orange text. The word 'Social Action' is in white, and 'Strategy' is in orange. Below the title, the date 'October 2005' is written in white. The circle is surrounded by a white line that connects to five circular images of diverse people: a woman at the top, a couple, a man on a mobile phone, a man with a baby, and an elderly woman.

# Social Action Strategy

October 2005

# Foreword

The Government's target that, by 2010, no vulnerable household should be in fuel poverty becomes increasingly difficult to meet as energy prices rise as a result of increased fuel and environmental costs.

The broader issues of poverty and social exclusion are essentially for Government. Ofgem's central role, to protect consumers by promoting competitive energy markets and regulating monopoly companies, remains key in helping to keep energy prices as low as possible. Consistent with our statutory duties to have regard to the needs of the sick, elderly, those on low incomes and those living in rural areas, we also seek to integrate social issues and considerations throughout the organisation's work.

In today's climate, however, a more holistic approach that brings together help on energy efficiency, benefits and money advice, is likely to be the most effective way to combat fuel poverty. Ofgem, industry, consumer and voluntary groups together have an important part to play in seeking to ensure that every home is adequately and affordably heated. Improved joined up working between Government, industry and agencies can better identify and target help to where it is most needed.

Alongside our core work in competition and regulation, improved targeting and stronger coordination have driven Ofgem's recent social action initiatives: encouraging energy companies to develop debt prevention strategies and social tariffs; engaging with Government to press for stronger integration between energy efficiency schemes; and helping to get the message across to customers through the Energy Smart campaign and more widely in the Ofgem "Powering the Energy Debate" seminar series.

We will build on this in the new Social Action Strategy which takes forward work over the next five years in four key areas:

- the need to comply with regulatory obligations
- encouraging best practice among energy suppliers
- influencing the debate about measures to help tackle fuel poverty, and
- how best to inform consumers about ways to lower energy bills.

## 1 Background

### The problem of fuel poverty

- 1.1. In 2001, the Government set a target that no household should be living in fuel poverty by 2016 and no vulnerable household should be in fuel poverty<sup>1</sup> by 2010<sup>2</sup>. As a result of improved incomes and falling energy costs between 1996 and 2003, the number of households considered to be in fuel poverty fell from 6.5 million to an estimated 2.0 million. The recent rise in gas and electricity prices has the potential to reverse this process, placing more customers into fuel poverty and making the removal of existing customers from fuel poverty more difficult. Prices are rising because of increases in wholesale energy costs, linked to declining UK gas supplies, and environmental costs. The Department of Trade and Industry (DTI) estimates that vulnerable households in fuel poverty have increased by around 400,000 in England since 2003 as a result of higher prices<sup>3</sup>.
- 1.2. Poor housing is another relevant factor in fuel poverty: energy efficiency measures can both reduce costs and help improve warmth and comfort in the home.
- 1.3. At times of rising prices, customers face other problems including the fear of getting into debt and being disconnected. Some customers may ration their energy consumption to avoid going into debt and, if they are using prepayment meters, may 'self-disconnect'. Some very vulnerable customers, such as older people or those with special needs, have specific needs and may require additional help from companies.

### The Social Action Plan

- 1.4. In March 2000, Ofgem published its first five year Social Action Plan (SAP), which described how Ofgem would meet its statutory obligations to protect the interests of certain vulnerable customers and contribute to the Government's targets to eliminate fuel poverty.
- 1.5. Since then there has been real progress, for example:
  - research has shown that various initiatives to promote switching from one supplier to another by those in fuel poverty have borne fruit. Switching rates among low income customers are broadly the same as among higher income groups, with similar levels of awareness and satisfaction with suppliers, and
  - improved codes of practice from energy companies have led to better arrangements on payment terms, help for customers in debt, energy efficiency advice and the development of the Priority Service Register (PSR).
- 1.6. In 2004, Ofgem launched a new initiative to promote a holistic approach to these issues. As part of this, we wrote to energy suppliers inviting them to place additional focus on the targeting of energy efficiency programmes and the development of special tariffs, as well as on debt prevention initiatives and the provision of special services. The response to that initiative has been positive and subsequent research also confirms that companies have taken their responsibilities seriously.

1 A household is defined as being in fuel poverty where it would need to spend more than 10 per cent of its income on energy to maintain a satisfactorily warm home

2 Fuel poverty targets differ slightly between England, Scotland and Wales

3 After taking account of increased incomes

## 1.7. Most recently:

- a number of suppliers have developed new social tariffs in response to Ofgem clarification on the scope for introducing such tariffs
- a new self-regulatory 'safety net' has been developed, with Ofgem encouragement, to prevent the disconnection of vulnerable customers, and
- the Energy Smart campaign was launched, with the aim of reducing the effects of price rises on those in fuel poverty by providing better information to customers on ways they can save money on their bills. This campaign is continuing.

## New Social Action Strategy

- 1.8. There continues to be a clear need for a social strategy to focus political attention and act as a catalyst for the development of solutions to the problems faced by vulnerable customers. The Government's fuel poverty targets remain extremely challenging. The threat of debt and disconnection remains a major concern for a significant number of customers despite the progress made over the last five years. This document is our response to such concerns.

## 2 Fighting fuel poverty

### Ofgem's duties

- 2.1. Ofgem's principal objective is to protect the interests of consumers, wherever appropriate by promoting effective competition. Ofgem also has a statutory duty to have regard to the interests of customers who are disabled, chronically sick, of pensionable age, on low incomes or living in rural areas. There is statutory guidance from Government on social and environmental issues to which the Authority must have regard when discharging its functions and which requires us, within the sphere of our responsibility, to help achieve the Government's fuel poverty targets. Any measures with significant financial implications for customers or industry will, however, be implemented by Government.
- 2.2. Over the years, Ofgem's broad approach of promoting competitive energy markets and regulating network monopolies has helped keep price increases to a minimum. It has given customers opportunities to make savings on their bills by switching suppliers, changing payment method or taking up energy efficiency measures.
- 2.3. To meet our social obligations in tackling fuel poverty, Ofgem has adopted both formal and informal routes, combining the benefits of competitive markets with more specific measures. That approach will continue. Measures taken under the Social Action Strategy will be designed, as far as possible, to avoid any inhibition or distortion of competition.
- 2.4. Ofgem has a duty to have regard to the principles of better regulation and has sought to take forward initiatives through a self-regulatory approach where appropriate.
- 2.5. We will continue to integrate social issues throughout the work of the organisation. Indeed the process of conducting impact assessments will help ensure that the impacts of wider policy decisions on vulnerable customers are considered properly .

### Government measures

- 2.6. It is, of course, to Government that the major responsibility falls in the fight against fuel poverty. Its main contribution to the mitigation of fuel poverty is to improve levels of household income, for example, through benefits provisions such as Pension Credit and the Winter Fuel Payment. Since 2003, rising incomes have reduced the numbers in fuel poverty by around 200,000 which have offset some of the effects of rising prices.
- 2.7. The Government also promotes a number of schemes which help address fuel poverty. Government funding for Warm Front, which provides energy efficiency measures and heating to those on low incomes, will exceed £600 million between 2005 – 2008. Government is also responsible for the design of the Energy Efficiency Commitment (EEC). This scheme envisages that measures to the value of some £1.2 billion will be installed by suppliers from 2005-2008, with the majority of the funding going to the priority group of low income customers.



- 2.8. Government also has a role in setting housing standards and involving other groups, such as health workers and social services, who are in the front line dealing with those who most need help.

### Industry's role

- 2.9. Suppliers have a range of regulatory obligations towards vulnerable consumers which include making available a range of payment methods, sensitive treatment for customers in debt, providing energy efficiency advice, as well as measures under EEC and the PSR.
- 2.10. Industry also contributes through a range of Corporate Social Responsibility (CSR) initiatives which play an important part in helping customers in need and in supplementing regulatory obligations. In June 2005, Ofgem audited energy suppliers' CSR initiatives<sup>4</sup> and confirmed a welcome real increase in the level of company activity over the past two years. This is to be encouraged. Each company has developed innovative schemes - each with different areas of focus and with a range of community partners. Examples include trust funds to provide support to households in financial crisis, the provision of benefits entitlement checks and the development of special tariffs. Research has confirmed that there are clear business benefits to companies in terms of brand positioning through the development of CSR programmes. That approach fits well in a competitive market.

### Working together

- 2.11 To succeed, all those involved - the Government, Ofgem, industry, consumer and voluntary bodies - must work together in a joined-up and holistic approach, targeting all the available support where it is most needed to avoid any customer suffering through having to live in a cold home, or feeling vulnerable because of the fear of debt and disconnection.
- 2.12. The Social Action Strategy set out in this consultation document builds on this past work and focuses our planned work over the next five years around four key themes:
- **compliance with regulatory obligations** and effective monitoring and reporting by the companies
  - **encouraging best practice among energy suppliers**, using research to identify effective approaches to fuel poverty and vulnerable customers
  - **influencing the debate about measures to help tackle fuel poverty**, working with other stakeholders, helping to promote a joined up and holistic approach, and
  - how best to **inform consumers about ways to lower their energy bills**.

4 Review of Suppliers' Corporate Social Initiatives prepared for Ofgem by Energy Services Partnership

## 3 Ofgem's work plan

### Theme 1 : Regulatory obligations, monitoring and reporting

- 3.1. As part of their regulatory obligations, companies provide help in a number of areas including a range of payment methods, sensitive treatment for customers in debt, energy efficiency advice and special services for older customers and those with special needs, provided under the PSR.
- 3.2. Within its primary remit, Ofgem works to take account of the particular interests of vulnerable customers as it does in connection with the environment. This it does in preparing impact assessments for all major policies.
- 3.3. Once the policy framework is in place, it is essential that there is effective monitoring and reporting to track progress on social issues, inform compliance activity and improve transparency in the market for industry and customers.

#### Action

- 3.4. Ofgem has announced a major review of the supply licences<sup>5</sup> in the light of its commitment to better regulation. We will pay particular attention to how best to provide proportionate protection for vulnerable customers. Specific consideration will be given to the implications for suppliers of the Disability Discrimination Act (DDA).

- 3.5. A review of the data currently collected from companies as part of the process of monitoring their performance against social obligations<sup>6</sup> is now underway. The aim is to streamline the data collection, in line with better regulation, while exploring ways to make this information more readily accessible to customers, for example by developing a simple set of indicators of companies' performance. We will also consider what measures are most appropriate in monitoring debt levels<sup>7</sup>. New measures should be in place early next year.
- 3.6. There are opportunities also to pay special attention to vulnerable customers in other aspects of policy development. In the price controls that apply to monopoly network companies a discretionary reward scheme for electricity companies has been introduced to promote good practice in areas such as CSR and the services for priority customers. These will come into force early next year. We will consider other similar issues in the gas distribution price control review.
- 3.7. We have consulted on the new powers granted to Ofgem under the Energy Act 2004 to make regulations to extend the range of payments that can be collected through a prepayment meter<sup>8</sup>. One option is to allow gas payments to be collected through an electricity meter (or vice versa) with the potential for significant cost savings. The conclusions

5 Further information on the supply licence review, including the consultation document and seminar slides, is available on the Ofgem website under the work area 'Supply Licence Review'.

6 The most recent statistics can be found on the Ofgem website under the work area 'Social Action Plan'.

7 This is in line with recommendations from the review by Sohn Associates for Ofgem : Preventing debt and disconnection – the review, March 2005.

8 Prepayment meters: consultation on new powers under the Energy Act 2004 and update on recent developments. Ofgem, February 2005.

and any necessary draft regulations will be published before the end of 2005.

## Theme II : Best practice and research

- 3.8. Research is important in informing the development and implementation of broader policies and in helping to encourage the spread of best practice across industry.
- 3.9. There are two broad types of research. Consumer surveys, aimed at building up our understanding, inform policy decisions and contribute to a wider public debate. For example, past research into the attitudes and experiences of prepayment customers will be updated in 2006. The other type of research involves mystery shopping exercises and benchmarking surveys to track performance and help identify best practice. We intend to test again the quality of service given by suppliers' front line staff to vulnerable customers.
- 3.10. Ofgem is publishing in parallel with this document the results of its research into the contribution of companies' CSR initiatives. They show that reaching vulnerable customers is a complex task. While there was scepticism and mistrust among stakeholders about suppliers' motives in offering help, localised community initiatives and partnerships were found to be particularly effective in building trust and reaching vulnerable customers. We will be discussing with companies some of the examples of best practice identified in that report.

### Action

- 3.11. We will continue to track companies' performance, encouraging them to adopt best practice in debt prevention and provision of special services. This work will include support for the Factor Four<sup>9</sup> project which helps tackle financial exclusion.
- 3.12. We will undertake research with energywatch into the effectiveness of current PSR arrangements. This research, to be published by the end of the year, will inform the review of supply licence conditions.
- 3.13. We will explore with companies and voluntary groups the best practice in relation to benefits entitlement checks to increase take-up of the benefits identified. This picks up on a conclusion from the CSR audit that while the increased benefits identified through the checks were significant, little monitoring is done on how many customers actually receive the additional benefits and whether adequate support is given to customers through the application process.
- 3.14. The Centre for Sustainable Energy and the University of Bristol are jointly developing a fuel poverty indicator for use in targeting fuel poverty programmes at local authority, ward and sub-ward level across England. This important project, funded by Ofgem, DTI and other stakeholders, will be completed early in 2006-2007.

<sup>9</sup> The Factor Four concept was developed by National Energy Action and New Economic Foundation to integrate help in four key areas for low income customers, energy efficiency measures, budgeting & money advice, the take up of energy efficiency measures and bill payment

## Theme III : Knowledge and influence

- 3.15. Informed debate on fuel poverty remains crucial in developing a wider policy framework and improving the effectiveness of individual measures, including the provision and interaction of the energy efficiency schemes such as Warm Front and the EEC (for which Ofgem has administrative responsibility). With a combined value of nearly £2 billion over the next three years, it is important that such schemes are targeted effectively and provide value for money.
- 3.16. The Social Action Review Group, established by Ofgem in 2000, has been invaluable in informing our work, in promoting a wider debate and in developing a holistic approach to tackling fuel poverty. Sharing information and ideas with, for example, other regulators to identify best practice in other sectors of relevance is helpful in generating new ideas. It is also important that Ofgem track new developments in metering and other technologies such as micro-generation which may assist the fuel poor.

### Action

- 3.17. In 2005-2006 Ofgem will work with Government and other stakeholders on:
- EEC: we will encourage early discussion on the next phase of this scheme, particularly if changes are required to target the help more towards the fuel poor or to achieve better integration with other schemes ahead of Defra's planned review in 2007

- Fuel Direct: with all stakeholders we will continue to identify ways to improve the take-up and accessibility of the scheme or alternatives, including the possible use of direct debit bank payments, and
- self-disconnection: self disconnection by prepayment meter customers because of an inability to pay is of real concern and we will continue to explore with suppliers options for better targeted advice.

## Theme IV : Information for customers

- 3.18. Vulnerable customers, including many of those most in need of support, are sometimes the most elusive and, therefore, not easily targeted for advice and help. The reasons for this are many and varied.
- 3.19. Customers need to be properly informed about options for reducing their energy bills and confident to make the choices available. energywatch have statutory responsibility for providing energy advice and information to customers. We will work with them under the Energy Smart campaign to promote the choices available to customers to help reduce energy costs by switching to a cheaper supplier, paying by a cheaper payment method and installing energy efficiency measures.

3.20. Energy suppliers have a critical role to play in helping vulnerable customers to be well informed about the choices and help available either through meeting their social obligations or more widely through their CSR activities. An important initiative by the major energy suppliers is the establishment of a new Fuel Poverty helpline to provide a 'one stop shop' for consumers and intermediaries on measures to address fuel poverty. Accurate billing is also key in avoiding the build-up of debt as well as helping with energy efficiency and enabling consumers to make informed choices. Following consideration of a Supercomplaint from energywatch, Ofgem has called on industry to improve the response to customers where billing systems fail.

**Action**

3.21. We will continue to work with energywatch under the Energy Smart umbrella on general publicity campaigns, and on initiatives to target information to customers through informed third parties such as Citizens' Advice and debt advisors. Work in this area may include the development of fact sheets and materials on grants, PSR, codes of practice and debt advice. More generally, we will continue to work with energywatch to understand customers' concerns and develop information which is useful to customers and consumer organisations.

3.22. Working with industry we will consider how customers can be encouraged to take up offers of help from suppliers more readily and whether Ofgem can play a role in this. Research shows suppliers have found it difficult to market certain products such as energy efficiency measures, because customers are sceptical about the motivation of energy companies providing help in this way.

3.23. Through the Ofgem initiative 'Powering the Energy Debate', Ofgem will promote dialogue and debate with key stakeholders on issues and measures to help tackle fuel poverty.

**Key Deliverables for 2005-2006**

Themes	Action	Date
Regulatory obligations monitoring and reporting	Following discussion with suppliers and energywatch, to put in place a new reporting system for social obligations	Q4
Regulatory obligations monitoring and reporting	Publish conclusions on the range of payments that can be collected through a prepayment meter	Q3
Regulatory obligations monitoring and reporting	Supply licence review – consult on issues relating to vulnerable customers	Q4
Regulatory obligations monitoring and reporting	Implement the discretionary reward scheme for electricity distribution companies to promote good practice in areas such as CSR and services for priority service customers	Q4 (To be awarded in Q1 of each year thereafter)
Best practice and research	Publish review of the effectiveness of the Priority Service Register, based on joint research with energywatch	Q3
Knowledge and influence	Hold series of 'themed' discussions with Social Action Review Group, to include the PSR and financial inclusion	Q3-4
Information for customers	Agree with suppliers what contribution Ofgem can make to building consumer confidence in suppliers' offers of help	Q3