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Social Action Strategy Update

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Executive summary

In 2005 we launched our Social Action Strategy which described how we would seek to meet our social responsibilities and help the Government to meet its targets for eradicating fuel poverty. This is an important element of Ofgem's sustainability work.

While good progress has been made there is much more to do, in particular in view of recent energy price rises which have led to an increase in the number of households living in fuel poverty.

The Social Action Strategy identified four themes for Ofgem's work on social issues over the coming years and set out a programme of work for the first year. This update provides an overview of our progress in 2005/2006 and sets out a new programme of work for the remainder of 2006/2007.

Key areas of progress over the past twelve months include the successful implementation of new monitoring arrangements for suppliers; the development of new prepayment meter regulations which we hope will enable prepayment meter customers to access better energy deals; and initial steps on the supply licence review; as well as our contributions to the wider debate on key energy issues like smarter metering and microgeneration.

Improved targeting and stronger coordination have driven our 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. We will continue to drive forward progress in these areas and work to influence wider government policy on issues such as financial exclusion and energy efficiency. We will continue to contribute to the debate on key issues such as smarter metering and the growth of microgeneration, both of which have the potential to contribute to work on fuel poverty.

Our role in keeping pressure on energy costs also has an important role to play in delivering help to vulnerable customers: working to deliver improved services and better energy deals.

The importance of delivering comprehensive solutions has been recognised by the Government in its report on the Energy Review. In that report the Government identifies a particular group of vulnerable customers to whom a comprehensive package of support should be delivered this winter. At Government's invitation we are bringing together Government departments, suppliers and others through Ofgem's Social Action Strategy Review Group to take this forward.

In addition, we will, over the coming year, continue and renew our efforts to work closely with others in delivering help and improved services to more vulnerable customers. For example by working with suppliers and consumer groups to identify and promote best practice in the provision of suppliers' corporate social initiatives.

Other key areas of future work are research on the needs and experiences of prepayment meter customers; the level of customer awareness of the social initiatives being offered by suppliers and the extent to which vulnerable customers are taking advantage of the benefits of competition and switching supplier.

Executive summary

We will also continue to progress our review of supply licence obligations with a view to introducing new licences in 2007 which deliver high quality and appropriate regulation as well as meeting the needs of vulnerable customers.

Action by us alone will not, however, be sufficient to meet the challenges that we face. In order to succeed all those involved - the Government, Ofgem, industry, consumer and voluntary bodies – need to 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.

The Social Action Strategy: Update on progress and workplan for 2006-2007

Our Social Action Strategy, which was launched in 2005, sets out how we will meet our social responsibilities and help the Government to meet its targets for eradicating fuel poverty.

The Strategy identified four themes for Ofgem's work on social issues over the coming years:

- securing compliance with regulatory obligations and effective monitoring and reporting by the companies;
- encouraging best practice among energy suppliers, using research to identify effective ways to address fuel poverty and help 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
- informing consumers about ways to lower their energy bills.

This update provides an overview of our progress in 2005/2006 in delivering against these social goals and sets out a new programme of work for 2006/2007¹.

This autumn we will publish our first Sustainable Development Report. The Report will set out what sustainable development means to Ofgem; report on progress, by Ofgem and others, in delivering sustainable development within the context of the energy industry; and will identify areas for future action. Fuel poverty and our social objectives with respect to vulnerable customers are key elements of our work on sustainability and will be considered within this Report.

¹ Details of the Ofgem publications referred to in this Review, including hyperlinks to Ofgem's website where appropriate, are set out in Appendix 2 to this Review

Theme I: Regulatory obligations, monitoring and reporting

We aim to take account of the particular interests of vulnerable customers in all areas of our work, having regard to the Government's statutory guidance on social and environmental issues as well as our objectives and duties more generally. In developing policy we consider the impact of our proposals on more vulnerable customers and seek to deliver solutions which best meet the needs of all customers, recognising that in some instances, specific action may be required for vulnerable customers.

In terms of existing regulation, it is necessary to keep protections under review, assessing their continuing relevance as well as their success.

Effective monitoring and reporting are essential in enabling us to track progress on social issues, inform compliance activity and identify possible additional areas for future action.

Progress to date

We have, over the past twelve months, taken a number of important actions:

- Our ongoing **Supply Licence Review** aims to deliver revised gas and electricity supply licences which reduce red tape, clarify remaining rules, better protect customers and deliver against the principles of better regulation. The need to protect vulnerable customers is one of the central principles guiding our work in this area, demonstrating our commitment to the Social Action Strategy. A specific Working Group was set up to bring suppliers and consumer groups together with Ofgem to help develop proposals for protecting vulnerable customers. In March 2006 we set out for consultation our initial thoughts which were informed by discussions at those meetings. The results of that consultation have been

fed through to the initial proposals for the entire supply licence.

- Effective **monitoring** of licensees' performance in key areas such as debt management and the provision of priority services is an important part of our work to help protect vulnerable customers. We have reviewed the statistical information we collect from suppliers to identify ways to simplify the monitoring arrangements and reduce the administrative burden. Following this review we have made a number of changes, reducing by 50% the amount of data we collect from suppliers and moving in a number of areas to annual submissions rather than quarterly monitoring. Data will be published on the Ofgem website, along with commentary on key issues and trends to make it more accessible to key stakeholders. Data for 2005 is available on the website.
- We are aware that prepayment customers often pay more for their energy, in particular gas, due to the higher costs of such metering. Given that around one in five prepayment meter customers are on low incomes, we have been keen to explore ways in which suppliers can help prepayment meter customers access better energy deals. Using powers under the Energy Act 2004, we have been developing new **Prepayment Meter Regulations** which will allow suppliers to extend the range of payments which can be collected through a prepayment meter, including allowing suppliers to collect charges for two fuels. The new Regulations came into force on 1st September 2006.
- **Smarter metering** can deliver real benefits in terms of improved customer service and through increased energy efficiency at the domestic level which can help to tackle fuel

Theme I: Regulatory obligations, monitoring and reporting

poverty. We carried out a major study and consultation exercise to look at how to unlock these benefits and concluded that such innovation should be delivered through the competitive market and are working to remove any regulatory barriers that may stand in the way of this.

- Under the 2005-2010 electricity distribution price control, we established a **Discretionary Reward Scheme**. A key focus of the scheme is to reward action by distribution licensees to help vulnerable customers, for example in relation to priority care initiatives and corporate social responsibility. The outcome of the first year of the scheme was published in August 2006. This work identified good practice across the companies to meet and exceed their licence obligations.

How we will build on this

Over the coming year our work will be focused on a number of key areas.

- We will continue our work under the **Supply Licence Review** to deliver high quality and appropriate regulation. We will be considering the responses to the initial proposals published in July 2006 and will continue work to develop licence obligations to protect vulnerable customers in areas such as debt and disconnection and the Priority Services Register with a view to introducing revised supply licences in 2007.
- Through registration on the **Priority Services Register** customers who are vulnerable for reasons of age, disability or sickness can access additional help from suppliers, such as tailored services and additional information. They may also receive advance warning of supply interruptions. We consider that the existing arrangements

for registration on the PSR, and the take-up by eligible customers of PSR services, could be improved and we intend to work with suppliers, distributors and others over the coming year to explore ways in which the existing PSR registration processes can be improved.

- Ofgem's wider work can often raise particular issues for vulnerable customers and we work hard to take proper account of these issues. Areas of particular interest in the coming year include:
 - **gas distribution price control** where we are reviewing existing standards of performance and are also exploring ways in which gas network extensions could be facilitated by gas distribution companies to help tackle fuel poverty in communities not connected to the gas network;
 - **microgeneration** where we are looking further at existing barriers to the development of microgeneration and the possible scope for use of microgeneration technology as a means of tackling fuel poverty;
 - **metering** where we are continuing to work to break down the barriers to more innovative metering, to promote stronger competition, to enable new entry and opportunities to reduce cost in the provision of prepayment meters. We are also reviewing the existing metering price controls in gas and electricity; and
 - considering applications made by electricity distribution licensees for awards in the second year of the **Discretionary Reward Scheme**.

Theme II: Best practice and research

We have identified the promotion of best practice within the supply industry as a key area for action under our Social Action Strategy and seek, where appropriate, to take forward initiatives through a self-regulatory approach. A 'best practice' approach can, in our view deliver positive benefits for both suppliers and customers; allowing suppliers the freedom to innovate and differentiate themselves from their competitors whilst seeking to ensure quality and a degree of consistency for customers.

Research is another key area of our work under the Social Action Strategy and plays a vital role in informing our wider work and future plans as well as being a key input to policy decisions in specific areas.

Progress to date

Over the past twelve months we have taken action in a number of areas:

- **Corporate social initiatives** by energy suppliers are playing an increasing role in delivering help to vulnerable customers, and in particular to those customers who are living in, or are most at risk of, fuel poverty. In 2005, we commissioned consultants to review suppliers' voluntary social programmes. The report found that over the last five years, supplier involvement in social initiatives (such as social tariffs, benefits entitlement checks and trust funds) has grown significantly and looks set to continue. Building on this report, we worked with the DTI to develop an annual questionnaire to collect social and debt initiative information from suppliers on an annual basis.

- We contributed to energywatch's research on the effectiveness of the current arrangements for the **Priority Services Register**. This research, which was published in December 2005, informed our own work on the Supply Licence Review.
- We have worked with the industry, consumer organisations and government departments to promote financial inclusion and to highlight the benefits of maximising household income. In October 2005, we held a workshop on **Benefits Entitlement Checks** to identify and highlight best practice in this area.
- We also hosted, in March 2006, a workshop on linking energy efficiency with benefit entitlement checks. This workshop formed part of research being carried out by the Centre for Sustainable Energy² for the Energy Efficiency Partnership for Homes and provided an excellent opportunity for sharing experience and advice across sectors and for discussing the barriers to better integration of these services.
- Along with DTI and a number of key stakeholders we continue to fund the Centre for Sustainable Energy in conjunction with Bristol University, to update their **Fuel Poverty Indicator** which predicts the incidence of fuel poverty at ward and sub-ward level across England, which was first published in 2003.

² The CSE is a national charitable company established to advance sustainable energy policy and practice.

Theme II: Best practice and research

How we will build on this

We remain committed to using a 'best practice' approach where appropriate, as a means of delivering against our social objectives; highlighting areas for improvement in services and assessing the consumer experience. Research will also be a key factor in our work over the coming year.

In particular, over the next twelve months efforts will be focused on:

- Working to help promote **best practice in identifying and targeting vulnerable customers who may benefit from additional help** we will build on last year's audit of corporate social responsibility initiatives by suppliers and will focus on customer awareness and improving take-up.
- Highlighting the importance of suppliers, and indeed Ofgem, taking account of the varying **communication needs of vulnerable customers**. To this end we will, in the autumn, be hosting a best practice seminar which will focus on understanding and addressing the communication needs of particular groups of customers.
- Undertaking research in a number of areas to better inform our work to protect vulnerable customers:
 - to inform our work on identifying ways in which services to **prepayment meter** customers can be improved, we will carry out research looking at consumers' views on the benefits and disadvantages of prepayment meters;

- as part of our work on developing **best practice guidelines for suppliers on delivering social initiatives** we will undertake research to better assess consumer awareness of available help; and
- we are keen to ensure that all customers are able to take advantage of the benefits that competition can bring in terms of improved services and better energy deals. We will commission new research looking at **switching rates for vulnerable customers** to monitor progress in this area.

Theme III: Knowledge and influence

In areas where we have a less direct influence over outcomes we are committed to driving forward the debate; identifying solutions and facilitating discussion. The Social Action Strategy Review Group which was launched in 2000 remains an important vehicle for delivery in this area.

Progress to date

- Informed debate on fuel poverty and other issues affecting vulnerable customers is crucial to developing a wider policy framework and improving the effectiveness of individual measures. We have sought to add to the debate and bring about progress over the past twelve months in a number of key areas. Our work on new technologies such as **microgeneration** and **smarter metering** and their scope to help meet environmental and social objectives are areas where we have sought to bring our expertise to bear.
- In our response to the **Energy Review** where we called for additional resources and an increased focus on delivering solutions for fuel poor households in order to meet the Government's challenging targets for eradicating fuel poverty.
- We highlighted the importance of delivering comprehensive solutions in order to provide that households, once identified, are removed from fuel poverty and called for a single agency within government to be responsible for fuel poverty.
- The energy agenda is constantly changing, raising new issues and challenges. We are keen to promote debate on these issues at a more strategic level and to this end we launched the initiative '**Powering the**

energy debate'. Under this umbrella we have hosted a series of high-level seminars, as well as workshops and discussion days including a seminar on Delivering Sustainable Solutions for Affordable Warmth.

- In addition we have continued to support the Government's work on **financial inclusion**, delivery against which can help customers to access cheaper energy deals:
 - in January 2006 the Social Action Strategy Review Group met with the Chair of the Government's Financial Inclusion Task Force and discussed ways in which the energy sector (and in particular energy suppliers) can help to deliver financial inclusion. A number of possible opportunities were identified, which are being pursued; and
 - we support the **Factor Four Project**, which is working to tackle financial exclusion in the Birmingham area. The Project involves a number of partners, including an energy supplier and financial institutions and aims to integrate help in four key areas for low income customers: money/budgeting advice, energy efficiency, bill payment, savings and loans. The pilot project, which is due for completion in autumn 2006, is to be evaluated by National Energy Action. This evaluation is being funded by Ofgem.

How we will build on this

We have identified a number of key areas for focus in the coming year:

- We will continue our work under the '**Powering the energy debate**' umbrella driving forward discussion on key topics. Plans for the coming year include an event on microgeneration which will consider the

Theme III: Knowledge and influence

role that technology can play in tackling fuel poverty and an event on consumer representation and engagement.

- We have already begun working with Government on the development of the **Energy Efficiency Commitment (EEC)** scheme that will run from 2008-2011 and this work will continue over the next year. While EEC is primarily an environmental measure it has some important social benefits, in particular due to the current requirement that suppliers deliver at least 50% of their required energy savings to a priority group of households who are on certain listed benefits. We will engage fully in this debate over the coming year.
- We will continue to support the Government's wider work on **Financial Inclusion** and explore how the energy sector can help in meeting this challenge. We will also continue to encourage the use of **Fuel Direct** which can provide much needed help and support to customers who are having difficulty paying their bills.
- We will contribute to the DTI's thinking on **consumer representation** to ensure that any new arrangements meet the needs of vulnerable customers.
- Identifying and targeting fuel poor households is widely acknowledged to be one of the major challenges to be faced in seeking to meet the Government's target for eradicating fuel poverty. The Government, in its response to the **Energy Review**, has called on all parties to work together in better targeting help, over the coming winter, at a particular group of vulnerable customers (persons over 70 years living on Pension Credit). We are committed to working alongside Government, suppliers and others over the coming months to deliver against this objective. The Social Action Strategy Review Group has an important role to play in this process and will provide a forum for bringing together all interested parties to deliver progress.

Theme IV: Information for customers

Customers need to be properly informed about options for reducing their energy bills and need to feel confident to make the choices available. Vulnerable customers, in particular, may require additional information and support. We, along with suppliers and consumer bodies, have a role to play in providing such information to customers.

Progress to date

- Under the **energysmart** umbrella, we work with energywatch to promote the options 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.

Other key areas of progress include:

- encouraged by Government and Ofgem, the six main energy suppliers and the ERA established the **Home Heat Helpline** on 31 October 2005. The helpline provides a free, central phone number offering practical energy advice for vulnerable people; and
- at Ofgem's instigation, the launch of an independent **ombudsman scheme** by energy suppliers. This gives domestic customers a new independent body, uniquely empowered to settle disputes with energy suppliers over transfer and billing issues with the ability to award customers up to £5,000 compensation.

How we will build on this

- We will continue to work with energywatch under the **energysmart** umbrella to deliver information to customers.
- Factsheets and media campaigns are two of the key tools that we can use to help bring information to customers, either directly or through supporting key agencies such as Citizens Advice Bureau. Key areas of focus for the coming year include the benefits of tariff switching, debt management and suppliers' social initiatives, including energy efficiency.
- We will also work, under the **Supply Licence Review**, to place appropriate obligations on suppliers in terms of their communication with customers. Generally, we consider that the competitive market will ensure that high quality information is delivered although there may be a need in certain instances for a specific obligation, for example to ensure that customers are made fully aware of both the advantages and the disadvantages of prepayment meters.
- As noted above, we will host a seminar in Autumn 2006 looking at best practice approaches in communicating with different groups of vulnerable customers.

Appendix I: Key deliverables for 2006-2007

Themes	Action	Date
Regulatory obligations, monitoring and reporting	Consult on initial proposals for revised supply licences in electricity and gas, including further proposals for vulnerable customers	Q1
	Consult on licence amendments	Q3
Regulatory obligations, monitoring and reporting	Introduce new Prepayment Meter Regulations	Q2
Best practice and research	Host a best practice seminar on understanding and addressing the communication needs of particular groups of vulnerable customers	Q2
Best practice and research	Publish research on customer awareness of the help that is available through suppliers' corporate social responsibility initiatives	Q4
Best practice and research	Carry out research into the rate at which vulnerable customers groups are switching supplier	Q4
Best practice and research	Carry out research exploring prepayment meter issues to inform work on identifying ways to improve services for PPM customers	Q3

Appendix II: Further reading and information

All of the documents listed below are available in hard copy through Ofgem's Distribution Centre on 020 7901 7116 or by email: distribution@ofgem.gov.uk

Supply Licence Review

- Vulnerable Customers & Codes Of Practice Workgroup
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/supplylr/slr05>.
- Supply Licence Review – Implications for Vulnerable Customers - Consultation Document
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14157_4206.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/supplylr.
- Supply Licence Review
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/supplylr>.
- Supply Licence Review – Initial Policy Proposals
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15653_Supply_Licence_Review.pdf.

Monitoring

- Guidance notes for Codes of Practice monitoring
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15026_guidancerevision1.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/socialactionplan.
- Monitoring Data
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/socialactionplan>.

Prepayment Meter Regulations

- Consultation and Annexes on Prepayment Meter Regulations
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15110_8706a.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/socialactionplan.
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15108_8706b.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/socialactionplan.
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15111_8706c.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/socialactionplan.

Smarter Metering

- Domestic Metering Innovation – Next Steps
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15591_Metering_Innovation_Decision_document_final.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/metering.

Appendix II: Further reading and information

Discretionary Reward Scheme

- Decision letter on Ofgem's Electricity Distribution Customer Service Reward Scheme
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/qualityservice/qualityofsupply>

Metering

- Metering Price Control Review
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15593_metering_price_control_con_doc_V7-final.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/metering.

Corporate Social Initiatives

- Review of Suppliers' Corporate Social Initiatives
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11774_15505b.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/socialactionplan.
- UK Fuel Poverty Strategy and Annexes – 4th Annual Report
www.dti.gov.uk/energy/fuel-poverty/strategy/index.html.

Financial Inclusion

- Fuel Poverty Indicator - Centre for Sustainable Energy Website
<http://www.cse.org.uk/>
- Factor Four Project
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/265_5march02c.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/socialactionplan

Powering the Energy Debate

- Affordable Heating
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12685_seminarreportoct05.pdf?wtfrom=/ofgem/work/index.jsp§ion=/areasofwork/poweringseminars.

Energy Review

- Ofgem Response to Energy Review
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15081_8206.pdf?wtfrom=/ofgem/whats-new/archive.jsp.
- Energy Smart Campaign
<http://www.ofgem.gov.uk/ofgem/shared/template1.jsp?assortment=/workingforcustomers/cust05>