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*Promoting choice and
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Dear Richard

Firstly thank you for allowing Ofgem additional time to respond to this consultation.

Social tariffs and the role of energy suppliers

Ofgem recognises that suppliers can play an important role in delivering help and support to customers through their corporate social responsibility (CSR) offerings and we have, as you acknowledge, actively encouraged suppliers to provide such help and assistance. Our research in 2005 into suppliers' CSR initiatives identified that they had spent over £110 million on social offerings in 2004. We expect this expenditure to have increased over the past two years with larger and more widespread offers being introduced.

We agree that suppliers do have a role to play in providing direct and additional help to their customers to help them to manage their energy bills. This is particularly relevant in the way suppliers approach debt and debt management. In addition we believe that social offerings provide an important supplement to wider work on tackling fuel poverty and we continue to encourage suppliers to consider whether they could be doing more to assist their low income and vulnerable customers.

Suppliers are free to decide what type of help and assistance they wish to offer customers. Currently a wide range of offers have been developed by suppliers, including rebates, price freezes and ongoing tariff discounts. Some suppliers have also set up trust funds which can be used to fund community projects, write off customer debts or help fund the purchase of new appliances. The level of assistance provided and the cost to suppliers of delivering such help varies across suppliers. The arrangements for accessing the help offered by the supplier also vary - both across suppliers and also across the range of help that is offered.

These offerings are in addition to the range of fixed price and capped price deals that suppliers have made available to over 4 million customers over the past year to help them manage the recent price increases.

There is a clear need to deliver help to customers who may be struggling to meet their energy bills but there is a real risk in placing too much emphasis on supplier action as a means of tackling fuel poverty, for example by requiring suppliers to introduce discounted social tariffs. Given the inherent difficulty in targeting help at these customers, it may not be the most effective tool for tackling fuel poverty. If a social tariff was targeted at low income pensioners aged over 70 years, it would be necessary to direct help at a target group of over 1.4 million households – of which less than 25% are likely to be fuel poor.

The costs that suppliers will face in providing such help to customers will ultimately be funded by the rest of their customer base through increased bills. Given that the target group may be very large these costs could represent a significant increase in bills for remaining customers. Any target group is likely to catch only a small proportion of those living in fuel poverty which means that the remaining fuel poor (and others who may be struggling to pay their bills) will be hit with even higher bills and will struggle even more to meet the costs of their energy. Indeed those at the margin could actually be pushed into fuel poverty by the introduction of the social tariff.

Our preference remains to encourage suppliers to act responsibly and to develop their own offerings and initiatives to help customers, encouraging product innovation rather than prescribing a standardised approach. In terms of targeting supplier action at certain categories of customers we consider that suppliers should be able to decide how and to whom they target their social offerings. However given that the costs of these offerings will ultimately be met by consumers, we consider that suppliers should take care when developing expensive offerings to target them at groups which have a high likelihood of being in fuel poverty (ensuring the maximum bang for their customers' buck').

Even if the social tariff was to be funded wholly by government it is important to think very carefully about the implications of any such tariff. For example, to consider its impact on customers as they move onto and off the tariff as their circumstances change. It would also be necessary to consider the impact that price changes in the competitive market might have on the tariff. Also, while we positively want fuel poor and low income customers to enjoy increased warmth and comfort it is important to ensure that any help provided does not discourage customers from paying attention to the need to conserve energy for environmental reasons.

Improving existing supplier action: greater clarity and improved awareness

As noted above suppliers have developed a wide range of offers and we think that it is preferable to allow suppliers to develop their own products, drawing on their own knowledge and expertise rather than prescribe what offerings should be provided. However we agree with energywatch and others that it can, at

times, be difficult for consumers and consumer advisers to differentiate between the types of help on offer and to ensure that they are getting the best deal.

In the light of this we have been looking at how we might achieve greater clarity for consumers and their advisers.

We intend to develop a reporting framework which will help to 'shine a light' on the different offerings each supplier has and their respective features and benefits. While we do not intend that suppliers will be required to offer products covering each of the categories, the development of clear categories will help customers, suppliers and consumer advisers to distinguish between the various products that are on offer.

Looking specifically at the issue of 'social tariffs' our current thinking is that these offerings would be categorised separately from one-off rebates or discounts. An initial view of the features that may be required for an offering to be classed as a social tariff includes that:

- the offer relates to a reduction to ongoing charges levied on customers for the provision of energy. While this may be delivered alongside other help and support offered to vulnerable customers such as energy efficiency measures, it should be clearly distinguishable from that help;
- the offer is equal to, or lower than, a supplier's current lowest available standard offering (any categorisation will need to recognise the existence of non-standard offerings such as fixed price tariffs as well as the possible emergence of energy service contracts); and
- the offer is available to all customers who meet the qualification criteria.

Greater clarity is also required on expenditure by suppliers on social offerings and we hope that the reporting framework will help deliver this.

Currently we are developing our thinking in this area and an important input to this is our market research on vulnerable customers and their awareness and take-up of suppliers' CSR offerings. The findings from this research, which we will receive shortly, will help to inform our thinking and will be published in due course.

We intend to issue a consultation, in Spring 2007, setting out our proposals for categorising social offerings and a framework for supplier reporting. As you will be aware we have also been reviewing our Green Supply Guidelines. We will be looking, where possible and appropriate, to adopt a consistent approach in these two areas.

Monitoring of social offerings

We already collect information on an annual basis from suppliers and intend to use the CSR Reporting Framework that we are developing to enhance our

monitoring in this area on an annual basis. Further more detailed monitoring of all social offerings should be carried out by energywatch (or its successor body) and energywatch should also work with the price comparison services which they authorise to ensure that they properly market social offerings, including any social tariffs that suppliers might provide.

In developing our thinking on the categorisation of the various social offerings that are available we will be looking to consult with energywatch and others to seek their views on how we can best deliver clarity in this area. The results of your current consultation exercise are likely to be an important source of information and we look forward to seeing these.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Frerk', written in a cursive style.

Maxine Frerk

Director, Governance, Consumer and Social Affairs