



ofgem



# Social Action Strategy - Update

June 2007



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## Executive Summary

In 2005 we launched our Social Action Strategy which describes how we 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. The Social Action Strategy identifies four themes for Ofgem's work on social issues. This update provides an overview of our progress in 2006/2007 and sets out a new programme of work for 2007/2008.

While good progress has been made there is much more to do, in particular in view of the continuing high energy prices which has resulted in the number of households living in fuel poverty nearly doubling since 2004.

The White Paper published in May 2007 reaffirmed the Government's commitment to eradicating fuel poverty and identified a number of areas of work that it was looking to Ofgem to take forward.

Key areas of progress over the past twelve months have include the "winter initiative" which demonstrated the value of information sharing between Government and suppliers; the Supply Licence Review which resulted in a much clearer set of obligations on suppliers and extension of protection for vulnerable customers; implementation of new social obligation monitoring arrangements for suppliers; and the introduction of new prepayment meter (PPM) regulations which we hope will enable PPM customers to access better energy deals.

We have continued to contribute to the broader debate on key issues such as energy efficiency, smarter metering and the growth of microgeneration, all of which have the potential to contribute to the alleviation of fuel poverty.

## Executive summary

In the coming year our intention is to develop our Corporate Social Responsibility reporting framework to shine a light on suppliers' activities in this area and to help inform the Government's consideration of social tariffs, as signalled in the White Paper. We will also look to improve our understanding of the basis for the higher prices paid by PPM customers and the scope to communicate to consumers the savings available and hence promote further switching in that part of the market.

This is an important time of change in the arrangements for consumer representation. We will be working closely with DTI, energywatch, National Consumer Council and the Office of Fair Trading (OFT) to ensure that the needs of vulnerable customers are properly taken account of in the new arrangements.

Also as part of our Consumer First initiative we will be looking to build Ofgem's understanding of the different dimensions of vulnerability.

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.



**Sir John Mogg**  
Chairman

# The Social Action Strategy:

## Update on progress and work plan for 2007-2008

**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 2006/2007 in delivering against these social goals and sets out a new programme of work for 2007/2008<sup>1</sup>.

Last autumn we published our first Sustainable Development Report. The Report set out what sustainable development means to Ofgem; reported on progress, by Ofgem and others, in delivering sustainable development within the context of the energy industry; and identified 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 again be considered in the next version of this Report.

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<sup>1</sup> Details of the Ofgem publications referred to in this update, including hyperlinks to Ofgem's website where appropriate, are set out in Appendix 2 to this update

## 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 Supply Licence Review aimed to deliver revised gas and electricity supply licences which reduce red tape, clarify the remaining rules, better protect customers and deliver against the principles of better regulation – including avoiding duplication with broader consumer protection legislation. The need to

protect vulnerable customers was one of the central principles guiding our work in this area. We are now at the final stage of consultation on the revised licence conditions. This has seen a reduction in the length of the licence from 160 to 60 pages with all the key protection for vulnerable customers retained in a clearer form. Additional protection has been provided through the requirement for timely recalibration of PPMs and a ban on debt blocking where the debt results from a failure to recalibrate. There is a new requirement for information to be sent to all customers on gas safety. The requirement for free gas safety checks has been made subject to a means test but the eligibility group has been extended to include families with young children. The ban on disconnection of pensioner households in winter has been extended to include electricity.

- 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. This year we have been publishing the information in a simplified format and the first full year report on the new basis including commentary on key issues and trends is published alongside this update.

## Theme I: Regulatory obligations, monitoring and reporting

- We are aware that PPM customers often pay more for their energy, in particular gas, due to the higher costs of the meters and supporting infrastructure. Although PPM customers are a poor proxy for the fuel poor we are aware that it is a payment method that is more commonly used by those on lower incomes. We have therefore been keen to explore ways in which suppliers can help PPM customers access better energy deals. Using powers under the Energy Act 2004, we have introduced new Prepayment Meter Regulations which will allow suppliers to extend the range of payments which can be collected through a PPM, including allowing suppliers to collect charges for two fuels. The new Regulations came into force on 1st September 2006.
- A review of the gas and electricity metering price controls. On gas no changes were made at this stage and on electricity the price controls were lifted for new meters with costs for stranding of older technology PPM meters recovered across all customers rather than just by PPM customers who are typically on lower incomes.
- 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 (CSR). The outcome of the first year of the scheme was published in August 2006 and those for the second year are about to be announced. This work has identified good practice across the companies to meet and exceed their licence obligations. As part of the Gas Distribution Price Control we have been consulting on introducing a similar scheme for gas.
- Also as part of the Gas Distribution Price Control we have consulted on a range of options for how to encourage gas network extensions to help tackle fuel poverty in communities not connected to the gas network. Our consultation on Initial Proposals was published in May 2007.

### How we will build on this

Ofgem's wider work can often raise particular issues for vulnerable customers and we work hard to take proper account of these issues. Over the coming year our work will be focused on a number of key areas:

- We will be monitoring the impact of the changes made under the Supply Licence Review including in particular the revised arrangements for gas safety checks.

## Theme I: Regulatory obligations, monitoring and reporting

- The gas distribution price control where we will be finalising the arrangements on the discretionary reward scheme, standards of performance and gas network extensions to fuel poor 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.
- Smart metering where we are leading to work to realise the potential of smart metering including work on standards of interoperability and managing, on behalf of DTI, the energy demand research project which includes some initiatives targeted at low income and PPM customers. We are also looking to contribute our expertise to help influence the wider policy debate including Government's plans for implementing the Energy Services Directive.
- Taking forward the arrangements for the third year of the Electricity Distribution 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 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:

- We have carried out qualitative research to better understand the issues faced by PPM customers. This will help inform our work on overcoming barriers to switching by PPM customers and our input to the wider smart metering debate.
- In September 2006 we hosted a workshop for suppliers and other industry players on understanding and addressing the communication needs of vulnerable customers informed by expert presentations from a number of relevant charities.
- Along with DTI and a number of key stakeholders we continued to fund the Centre for Sustainable Energy<sup>2</sup> 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, and which was launched in May this year.
- We have carried out research on consumers' awareness of suppliers' vulnerable customer initiatives and on switching rates among vulnerable customers.
- Responding to concerns about the build up of debt following delayed recalibration of token PPMs, we wrote at senior level to all the companies concerned. We subsequently issued guidelines setting out what we expect to see in terms of proactive communication, sensitive handling in cases of genuine hardship, accelerated programmes of recalibration and replacement, and no debt blocking of these customers. All suppliers

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

## Theme II: Best practice and research

agreed to follow these guidelines and Ofgem has been monitoring and reporting on the situation since. The number of PPMs awaiting recalibration has now reduced substantially, individual cases are being dealt with sensitively and all supplies now have an accelerated programme for replacing these meters. The importance of these guidelines had been reinforced by the introduction of a new licence obligation requiring timely recalibration.

- As part of our Consumer First initiative we have undertaken a review of Ofgem's approach to consumer engagement against best practice. This has highlighted the scope for us to develop a better understanding of the different dimensions of vulnerability which we will be taking forward. We have also carried out a pilot deliberative forum on consumers and energy to provide a broader context for our work and to help us understand the potential for greater use of this as a research methodology.

### 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:

- Reviewing suppliers' CSR initiatives against a new framework which we are developing to shine a light on individual suppliers' performance in this area. This work was heralded in the Energy White Paper and will help inform Government's view on the need for legislation in relation to social tariffs.
- In the context of the changes to consumer representation and the requirements for us to set standards of performance for complaint handling and to approve redress schemes, we will need to carry out consumer research on complaint handling. We are also carrying out a review of the current ombudsman scheme and working with DTI, suppliers, energywatch and OFT to ensure the new arrangements for complaint handling meet the needs of all consumers but in particular those of vulnerable customers.
- Working to help promote best practice in debt and disconnection given the steady rise in average debt levels, and in particular concerns

## Theme II: Best practice and research

about the increase in average repayment rates for PPM customers.

- Looking at the scope for improved data sharing between suppliers and Distribution Network Operators (DNOs) to maintain the accuracy of their Priority Service Registers.
- Undertaking research in a number of areas to better inform our work to protect vulnerable customers across England, Scotland and Wales:
  - linked to the next Electricity Distribution Price Control to research consumer views on quality of service (including that provided to vulnerable customers);
  - further research looking at switching rates for vulnerable customers and the challenges facing them in exercising choice in the energy market.

- Restructuring our Consumer and Social Affairs team to lead our 'Consumer First' project give a stronger focus to our work in this area and bring in expertise to strengthen our approach to consumer engagement.

## 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.

- The Social Action Strategy Group has debated a number of important topics including financial exclusion, PPM, CSR reporting and social tariffs.
- 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.
- Ofgem has consistently highlighted the need for a holistic approach to tackling fuel poverty and for the need for Government, suppliers and third parties to work together to target help where it is needed most.

In this spirit, and responding to a proposal from Government in its Energy Review to target help for the coming winter to pensioners over 70 on pension credit, we used our Social Action Strategy Group to take forward what became known as “the winter initiative”. This was a pilot exercise using DWP data to send a targeted mailer to nearly 100,000 pensioners encouraging them to take up energy efficiency measures, benefit checks and tariff advice. The success of this initiative has led Government to commit, as part of the Energy White Paper, to looking at legislation to facilitate information sharing of this sort, with appropriate safeguards, and to a new communications campaign for winter 2007/08.

- 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, two years ago, we launched the initiative ‘Powering the energy debate’. Under this umbrella, over the last year we have hosted a series of high-level seminars, as well as workshops and discussion days including a seminar on “Consuming interests: Priorities for the Energy Consumer”.
- In addition we have continued to support the Government’s work on financial inclusion, delivery against

## Theme III: Knowledge and influence

which can help customers to access cheaper energy deals:

- The Social Action Strategy Review Group met with a representative 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 have supported 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 now complete, has been evaluated by National Energy Action. This evaluation was funded by Ofgem<sup>3</sup>.

- We have worked closely with Government on the development of the Energy Efficiency Commitment (EEC) scheme that will run from 2008-2011, now known as CERT (Carbon Emission Reduction Target).

While CERT 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. As announced in the White Paper there will be a significant increase in the overall obligation with flexibility for suppliers to reduce the proportion delivered to priority group customers if additional more expensive measures are provided to fuel poor customers off the gas network.

- In our response to the Energy Review and in discussion on the Energy White Paper we have highlighted the need to look in an integrated way at the implications of environmental measures for fuel poverty. For example auctioning EU Emission Trading allowances would provide a revenue stream that could be recycled into fuel poverty programmes. We have also fed in our views on issues with the current fuel poverty target.

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3 Factor Four evaluation report to be published on Ofgem's website with this update.

## Theme III: Knowledge and influence

### How we will build on this

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

- As noted above the Energy White Paper has signalled that the Government will be looking further at the issue of social tariffs and are part way through a full examination of their policy framework. We will look to contribute actively to this work in particular through our CSR reporting referred to above. We will also look to contribute to the wider review of fuel poverty which Government is taking forward linked to the comprehensive spending review.
- Given our role in administering CERT we are now starting work on the detailed arrangements that will need to be put in place, in particular around the “flexibility” elements of the scheme. We will also be inputting actively to the Government’s consultation on arrangements for CERT post 2011 including the possibility of a broader “supplier obligation” and the social issues that raises.
- We will continue to support the Government’s agenda 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.
- As noted above, we will contribute to the DTI’s work on implementing the changes to consumer representation to ensure that any new arrangements meet the needs of vulnerable customers.

## 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 have worked 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. Linked to the price changes over the past year we have carried out a number of switch and save campaigns highlighting to consumers where there are savings to be made.
- At Ofgem’s instigation, energy suppliers launched an independent ombudsman scheme in July 2006. 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 under the “energysmart” umbrella to deliver information to customers. A particular focus for this year will be PPM customers given the very high level of savings available to these consumers which are not being taken up. We have just launched a regional ‘switch and save’ campaign to highlight the savings available.
- 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. We will look to produce the output from our CSR reporting in a format that can be used by consumer advisers to provide advice on social measures. We will also explore the role that switching sites play in this area.
- With the changes to consumer representation there will be a difficult consumer communications exercise to be managed. We will look to play our part in taking this forward. This will include looking at how the current Confidence Code for switching sites, which is currently managed by energywatch, is best taken forward.



## Theme IV: Information for customers

- We will work with DTI to build on last year's "winter initiative" to provide targeted advice to vulnerable consumers ahead of this winter.
- We will also look at the potential to work more closely with the Scottish Executive and other agencies in Scotland to develop a targeted campaign for Scottish consumers.



## Appendix I: Key deliverables for 2007-2008

Themes	Action	Date
<b>Regulatory obligations, monitoring and reporting</b>	Revised supply licences implemented in electricity and gas, including protection for vulnerable customers	Q2
	Gas DPCR including Network Extensions and discretionary reward scheme	
	- Initial proposals	Q1
	- Final proposals	Q3
	Awards under Discretionary Reward Scheme (electricity)	Q1
	New complaint handling standards introduced	Q4
<b>Best practice and research</b>	Publish Debt and disconnection best practice review	Q3
	CSR framework	
	- initial review	Q2
	- update	Q3
	Review of Energy Supply Ombudsman	Q3
	Conduct research into switching by vulnerable customers	Q4
<b>Knowledge and Influence</b>	Publish second Ofgem Sustainable Development Report	Q3
	Input to Defra review of EEC/CERT	Q1/Q2
<b>Information for Customers</b>	Switch and Save Campaign targeted at PPM and other vulnerable customers	Ongoing

## 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](mailto:distribution@ofgem.gov.uk)

### Supply Licence Review

- Final proposals decision document  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=156&refer=Markets/RetMkts/Compl/SLR>

### Monitoring of Licensees' Performance

- Monitoring domestic Electricity and Gas suppliers' performance under their Codes of Practice - new reporting arrangements  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/COPMonitor/Documents1/16670-guidancereversion1006.pdf>  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/COPMonitor/Pages/COPmonitor.aspx>

### Prepayment Meter Regulations

- DTI 2006/2010 The Electricity (Prepayment Meter) Regulations 2006 and The Gas (Prepayment Meter) Regulations 2006  
[www.opsi.gov.uk/si/si200620.htm](http://www.opsi.gov.uk/si/si200620.htm)

### Gas and Electricity Metering Price Controls

- Ofgem's Decision on the Future of the Gas and Electricity Metering Price Controls  
[http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Metering/Documents1/15725-187\\_06.pdf](http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Metering/Documents1/15725-187_06.pdf)

### Gas Distribution Price Control Review

- GDPCR Initial Proposals  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=163&refer=Networks/GasDistr/GDPCR7-13>

### Electricity Distribution – Quality of Service

- Electricity Distribution Customer Service Reward Scheme  
<http://www.ofgem.gov.uk/Networks/ElecDist/QualofServ/CustServRewSch/Pages/CustServRewSch.aspx>

### Best Practice

- Communication needs of Vulnerable Customers  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=89&refer=SUSTAINABILITY/SOCACTION/PUBLICATIONS>

## Appendix II: Further reading and information

- Recalibration of Token Prepayment Meters  
[http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/16521-218\\_06.pdf](http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/16521-218_06.pdf)
- Consumer Engagement  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=166&refer=SUSTAINABILITY/ENVIRONMNT/POLICY>

### Financial Inclusion

- Fuel Poverty Indicator – Centre for Sustainable Energy Website  
<http://www.cse.org.uk/cgi-bin/projects.cgi?featured&&1018>
- Factor Four Project – National Energy Action Website  
[http://www.nea.org.uk/Policy\\_&\\_Research/Research\\_at\\_NEA/Ongoing\\_projects](http://www.nea.org.uk/Policy_&_Research/Research_at_NEA/Ongoing_projects)

### Energy Review

- Energy Review – DTI Website  
<http://www.dti.gov.uk/energy/review/page31995.html>
- Ofgem factsheet on Government's Energy Review  
<http://www.ofgem.gov.uk/Media/FactSheets/Documents1/13925-energyreviewfactsheet.pdf>
- Energy White Paper – DTI Website  
<http://www.dti.gov.uk/energy/whitepaper/page39534.html>

### Powering the Energy Debate

- Consuming Interests: Priorities for the Energy Consumer  
<http://www.ofgem.gov.uk/About%20us/PwringEnergyDeb/Documents1/Powering%20the%20Energy%20Debate%20-%20Consuming%20Debate.pdf>

### Energy Efficiency Commitment

- Energy Efficiency – Defra Website  
<http://www.defra.gov.uk/environment/climatechange/uk/household/eec/>

### Energy Supply Ombudsman Scheme

- Energy Supply Ombudsman – Energy Retail Association Website  
<http://www.energy-retail.org.uk/energysupply.html>



**ofgem**

**The Office of Gas and Electricity Markets**

9 Millbank, London SW1P 3GE

Tel 020 7901 7000

Fax 020 7901 7066

Ofgem Scotland

Regent Court, 70 West Regent Street,  
Glasgow G2 2QZ

Tel 0141 331 2678

[www.ofgem.gov.uk](http://www.ofgem.gov.uk)