



*Promoting choice and
value for all customers*

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Dear Colleagues

Update: Ofgem's review of Suppliers' voluntary initiatives to help vulnerable customers

1. Introduction

1.1. This letter provides an update on our 'Review of Suppliers' Voluntary Initiatives to Help Vulnerable Customers' which we published on 6 August 2007¹. The purpose of this review was to shine a light on suppliers' voluntary measures in order to inform the debate, to share and recognise good practice and help inform consumer advisors about the range of help available. This updated analysis will also help inform Government's decision on whether to include in the Energy Bill powers enabling the Secretary of State to require companies to have a proportionate programme of support for their most vulnerable customers.

2. Summary

2.1. As we stressed in the August report, the wider problems of poverty and social exclusion are for Government and require a focus on increasing incomes and improving housing. However suppliers play a part to help tackle fuel poverty through their corporate social responsibility (CSR) activity, as well as through statutory Energy Efficiency Commitment (EEC) obligations. Since the August report there have been a number of announcements by the companies which we welcome:

- npower has advised that it has secured an additional budget of £2.6 million for initiatives to help vulnerable customers as part of their Spreading Warmth programme which will run from November 2007 to February 2008. The majority of this funding (£2 million) will go towards a rebate for 50,000 of their vulnerable customers. The remaining £600,000 will go towards a crisis fund for free energy efficiency measures. npower has also confirmed its commitment to growing the number of customers helped by its First Step programme and social tariff over the next few years.
- Scottish Power has announced that it will be putting in place a new Priority Services Register (PSR) Social Tariff in early 2008. All qualifying PSR customers will be

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<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Review%20of%20suppliers%20voluntary%20initiatives.pdf>

offered savings of circa £100, which is equivalent on average to their offline Direct Debit tariff.

- SSE has advised that it plans to double the number of customers on its Energyplus Care social tariff by 31 March 2008 and has set up a working group to ensure this target is achieved.

- 2.2. In this update we have also sought to take account of the **wide range of other initiatives and support** suppliers offer their vulnerable customers, which do not fall into the social tariff, rebate and trust fund categories which were the focus of the August review. Appendix 1 of the August review set out in more detail the range of schemes offered and suppliers' estimation of their financial commitment regarding these schemes. A summary is included in the Annex to this letter. Including these other initiatives and partnership work provides consumers, Government and stakeholders with a more complete picture of the help available and suppliers' efforts in this area. Given the real difficulties identifying and targeting fuel poor customers, we see the range and variety of initiatives as a strength of the voluntary approach.
- 2.3. We have also included in this update an additional chart (Chart 4, page 8) to highlight the value and benefit to fuel poor customers of some **suppliers' competitive pricing strategies**. This reiterates the benefits available to consumers through the competitive energy market. If a customer is in a position to switch suppliers and to switch payment methods there are significant savings to be made, and in some cases these can be greater than the savings made by taking up a social tariff.
- 2.4. We consider that all of these approaches and initiatives offered by suppliers have worthwhile aims and provide assistance to some of their most vulnerable customers. These schemes should be welcomed and recognised as valuable steps which go beyond suppliers' regulatory obligations.

3. Social tariffs

- 3.1. Table 1 below sets out the scale of each supplier's social tariff, what it costs them in terms of lost revenue and the average saving for customers. It compares the latest figures for the 12 months to 31 August 2007 with the figures in the August report. It also highlights where suppliers have specific plans to expand their social tariffs in the coming year. There has been no change to the methodology used in the August review when calculating these figures.
- 3.2. The updated information submitted by suppliers for the 12 months to 31 August 2007, shows a marginal increase in the number of customers on a social tariff with SSE and npower. It also shows a decrease in the number of customers on British Gas' social tariff which is primarily due to customers on this tariff changing supplier or moving home.
- 3.3. The average savings to customers (over the weighted tariff) remain unchanged with the exception of those calculated for npower whose online electricity tariff is now cheaper than it was in the August review.

Table 1: Social tariffs, savings and costs (excluding Direct Debit)²

Supplier	Tariff name	Social tariff yearly	As at 31 July 2007 ³			As at 31 August 2007			Plans for 2008
			Number on tariff	Total savings	Average saving per customer	Number on tariff	Total savings	Average saving per customer	Number of customer accounts on tariff
British Gas	Essentials (Gas)	£510	197,000	£13.7m	£69	197,000	£13.6 m	£69	Current customer numbers maintained
	Essentials (Elec)	£342	93,000	£2.1m	£22	83,000	£1.9m	£22	
	Total	£852		£15.8m	£92		£15.5m	£92	
EDF Energy	Energy Assist (Gas)	£491	14,825	£1.3m	£87	14,825	£1.3m	£87	Activity for 2008 under review
	Energy Assist (Elec)	£304	45,154	£2.4m	£54	45,154	£2.4m	£54	
	Total	£795		£3.7m	£140		£3.7m	£140	
npower ⁴	First Step (Gas)	£496	507	£0.02m	£48	1,042	£0.05m	£48	Approx 4,350 in total
	First Step (Elec)	£327	760	£0.05m	£61	1,415	£0.11m	£75	
	Total	£823		£0.07m	£110		£0.16m	£124	
Powergen	Staywarm ⁵		10,373	£4.4m	£424	10,373	£4.4m	£424	Increase in customers supported by Staywarm expected
Scottish Power	No social tariff currently offered								Qualifying Priority Service Register customers
SSE	EnergyPlus care (Gas)	£428	4,000	£0.52m	£115	4,983	£0.57m	£115	Approx 25,000 in total
	EnergyPlus care (Elec)	£285	6,000	£0.45m	£71	7,538	£0.54m	£71	
	Total	£713		£0.97m	£186		£1.1m	£186	

² In reviewing the data submitted for this update, we found the following errors in Table 1 of the August review document. The figures for npower and SSE regarding the average savings for customers (over weighted tariff) had been inadvertently transposed. The number of customer accounts on the social tariff for British Gas and npower were incorrect. The figures for British Gas had been overstated and for npower understated. These errors have been corrected in the table above.

³ In the August review, suppliers provided figures for the number of customer accounts on their social tariff as at 31 July 2007 with the exception on npower who provided their customer account figures as at 31 December 2006.

⁴ In 2006, the First Step tariff was only available to npower customers on the Midlands billing system so numbers on the tariff are relatively low. In July 2007 the tariff was rolled out across the entire customer base.

⁵ Staywarm's price structure is complex. It offers customers a fixed price for their energy for a year based on where they live, the number of bedrooms and occupancy of the property. Customers on benefits or with special medical needs are able to stay on the standard Staywarm price matrix despite their high energy usage. Given the price structure of this tariff, we are unable to include it in our analysis. The figures shown here have been provided by Powergen. The savings, unlike for other suppliers, have not been calculated by Ofgem's analysis.

3.4. Table 1 includes some figures from Powergen regarding their Staywarm tariff. Given the nature of this tariff, we were unable to include it in our analysis and have provided this additional information to allow some high-level comparison with the other social tariffs offered. Powergen has advised that the Staywarm tariff is primarily a commercial product, but also includes substantial support for 10,373 customers with significantly above average energy usage who are on benefits or with special needs. In this regard it is similar in principle to the discounted tariffs offered by other suppliers.

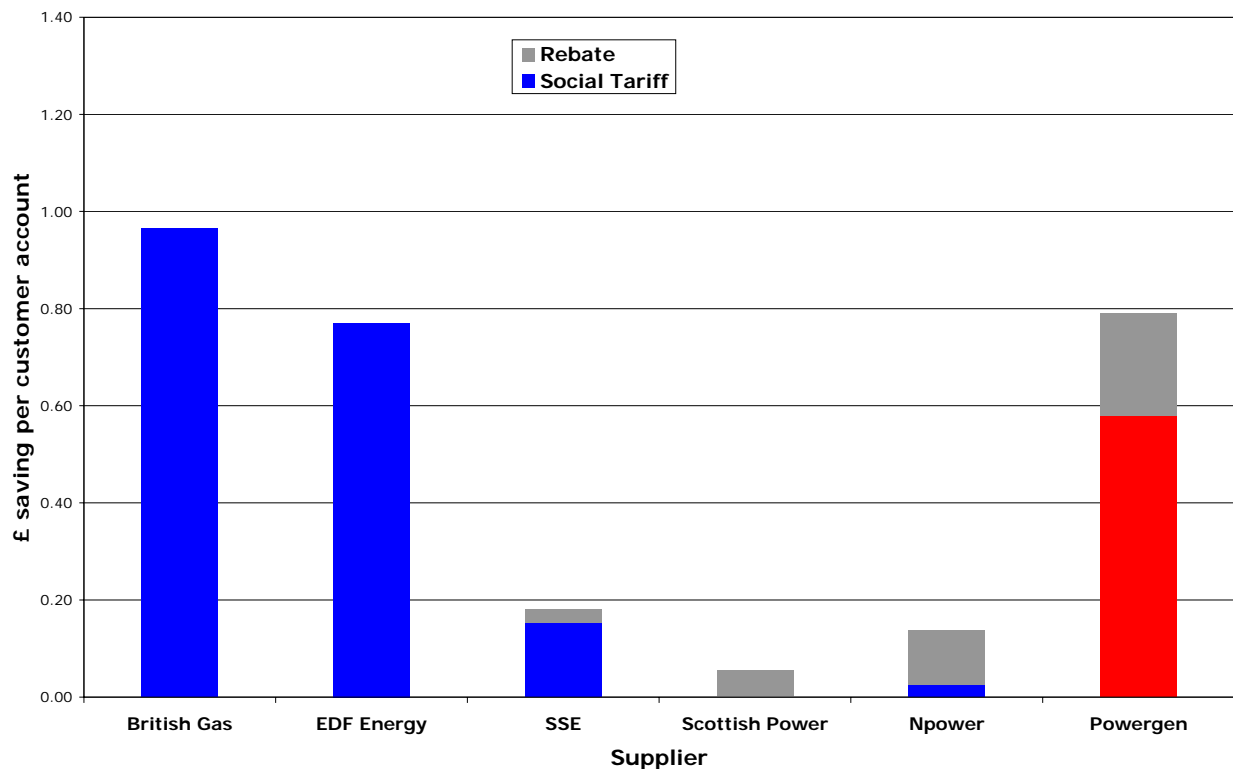
4. Rebates

4.1. The updated information submitted by suppliers for the 12 months to 31 August 2007, shows no change in the rebate figures published in the August review document. As noted in the August review, British Gas' rebate scheme was superseded by its Essentials Tariff.

4.2. As previously noted, npower has advised of its commitment to spend a further £2 million on a rebate for fuel poor customers in the coming months. This rebate will be automatically applied to the accounts of 50,000 fuel poor customers targeted using their own customer analysis.

4.3. Chart 1, below, shows the updated figures for the average savings from social tariffs and rebates per customer account for the 12 months to 31 August 2007. It has been calculated on the same basis as in the August report. As this is a historical view it does not reflect the changes planned by npower, Scottish Power and SSE regarding their social tariffs which we have sought, where possible, to reflect in Chart 3.

Chart 1: Average savings from social tariff and rebate per customer account to 31 August 2007



5. Trust funds

5.1. Table 2 below looks at suppliers' donations to trust funds, spend by the trust fund, number of customers helped in the last 12 months and future financial commitments to the trust funds. It is important to note that some of the trust funds included here are run by the supplier whilst others are independently managed.

Table 2: Trust funds: donation, spend, customers benefited and future plans

Supplier	Amount donated to fund in last 12 months	Amount spent by trust in last 12 months	Customers benefited in last 12 months	Future trust fund commitments
British Gas Energy Trust Fund	£1.85m	£2.73m	5,938	Further donation of £2.25m in Q1 2008
EDF Energy Trust Fund	£2.45m	£2.18m	4,214	Activity for 2008 under review
npower - First Step Fund	£1.5 m	£0.80m	465	£1.5m committed to this fund per annum
- Health Through Warmth Crisis Fund	£0.80m	£0.40m	6,203	Further donation of £1.5m for 2007-08
Powergen - support for Severn Trent Trust Fund	£0.06m	£0.06m	243	Further donations planned but amount is dependent on the number of cases
- Powergen Hardship Fund	£0.48m	£0.48m	530	Further donation of £174k in 2007-08
The Scottish Power Energy People Trust	£1.0m	£1.77m	88,846	Scottish Power remain committed to the Trust and future donations are under review

5.2. Table 2 highlights that:

- Additional trust funds have been included in this analysis for Powergen (Hardship Fund) and npower (Health Through Warmth Fund). Whilst these initiatives were originally included in Appendix 1 of the main August review, we consider it more appropriate that these be highlighted in the trust funds section of this update.
- All suppliers who currently have a trust fund have confirmed they will continue their support of these funds and most have planned further donations over the coming months.

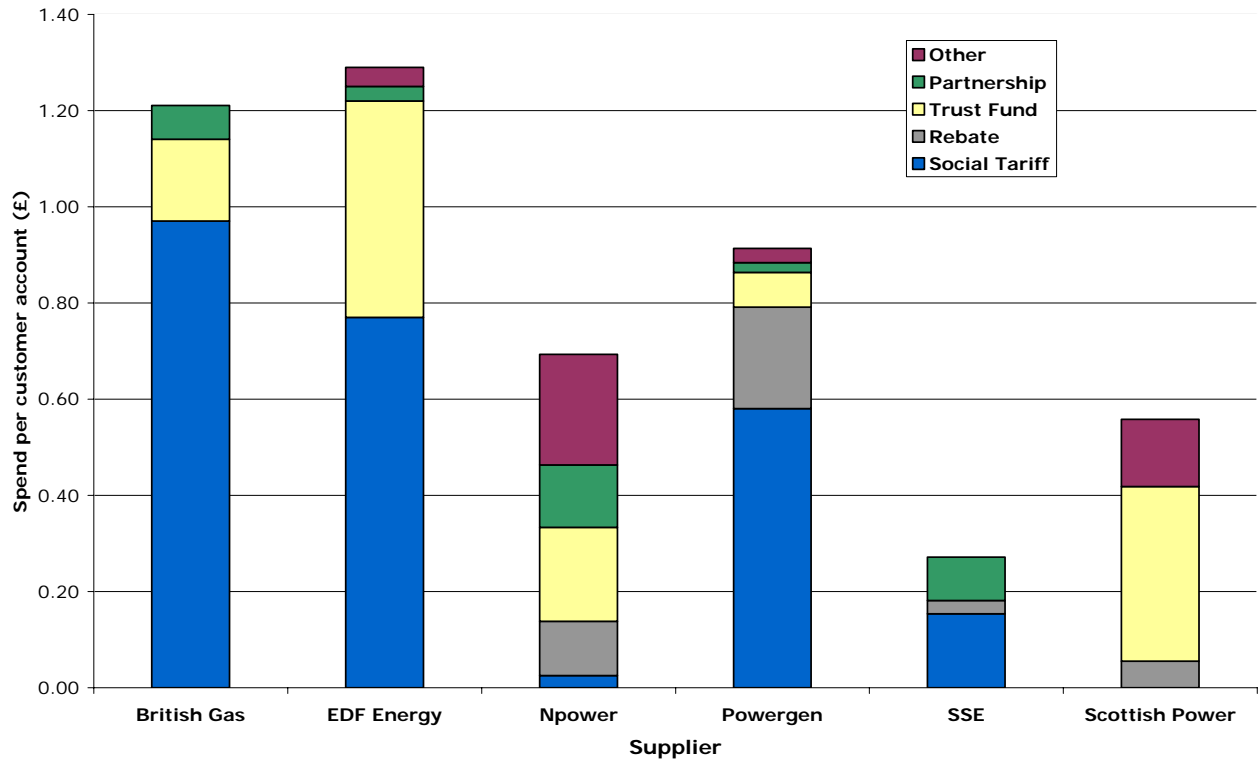
6. Total spend on voluntary initiatives

6.1. In this update, we have sought to highlight the diversity of approaches taken by suppliers in this area. Some suppliers prefer an approach which provides less help but to more customers. Other suppliers have adopted an approach which provides greater help but to fewer customers. Others aim to provide holistic and sustainable solutions to their vulnerable customers to help lift them out of debt and fuel poverty.

6.2. In the August review we focussed on social tariffs, rebates and trust funds which are the easiest to objectively assess. However we are aware that many of the suppliers' local partnership initiatives can be some of the most valuable in reaching customers who might otherwise be hard to reach. It is important that these initiatives are properly recognised in any assessment of the assistance suppliers provide to their vulnerable customers.

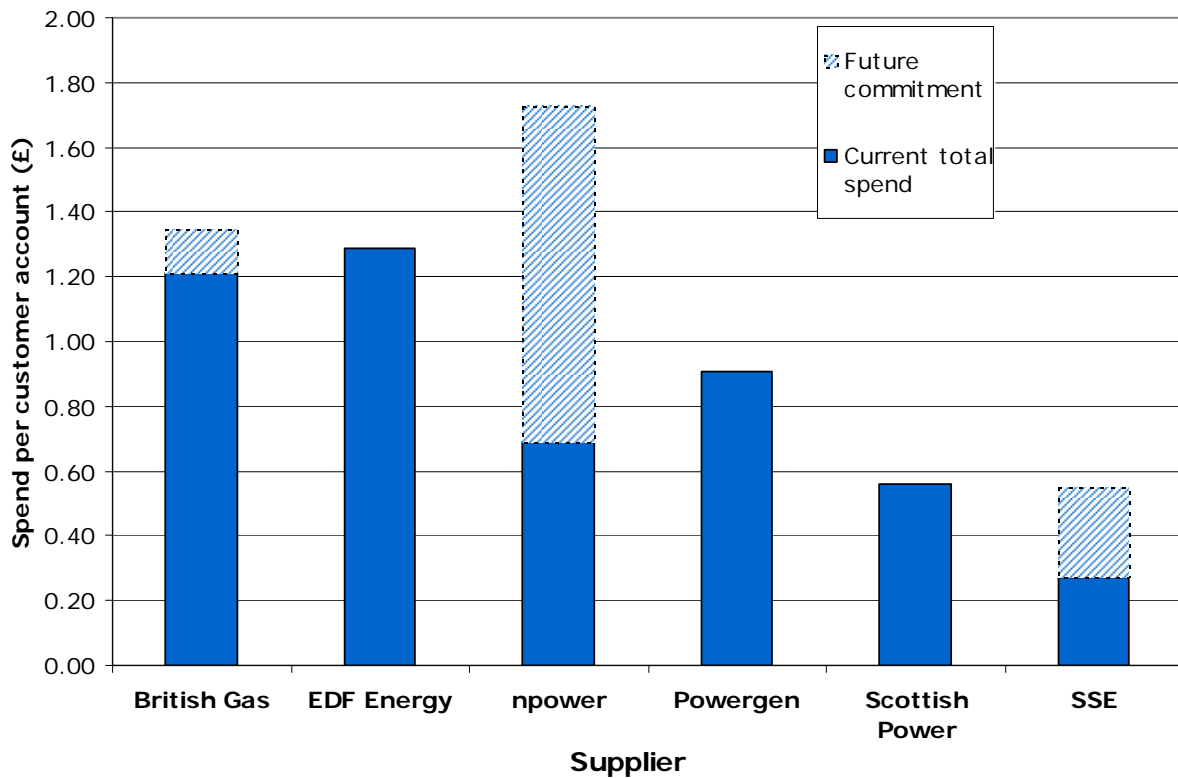
6.3. Chart 2 is an updated version from the August review which includes the full range of initiatives. This is an area where it is much harder to apply objective criteria: we are dependent on suppliers' cost estimates for partnership and other activities and hence the figures may not be directly comparable. However the chart highlights the extent to which, for some suppliers, this represents a significant part of their contribution. The chart does not take account of some of the future plans proposed by suppliers (which we have sought to include in Chart 3 where possible).

Chart 2: Spend on voluntary initiatives per customer account



6.4. Chart 3 includes the total spend by supplier on all initiatives, as set out in Chart 2 above, as well as some of the future financial commitments suppliers have made to specific plans for 2008. It should be noted that we have only included future spend where suppliers have provided this information. Many suppliers are still reviewing their social programmes for the coming year and where this is the case we have not been able to include their future activity in Chart 3. All suppliers have confirmed their ongoing commitment to helping their vulnerable customers through a range of voluntary initiatives.

Chart 3: Current and proposed spend on initiatives per customer account



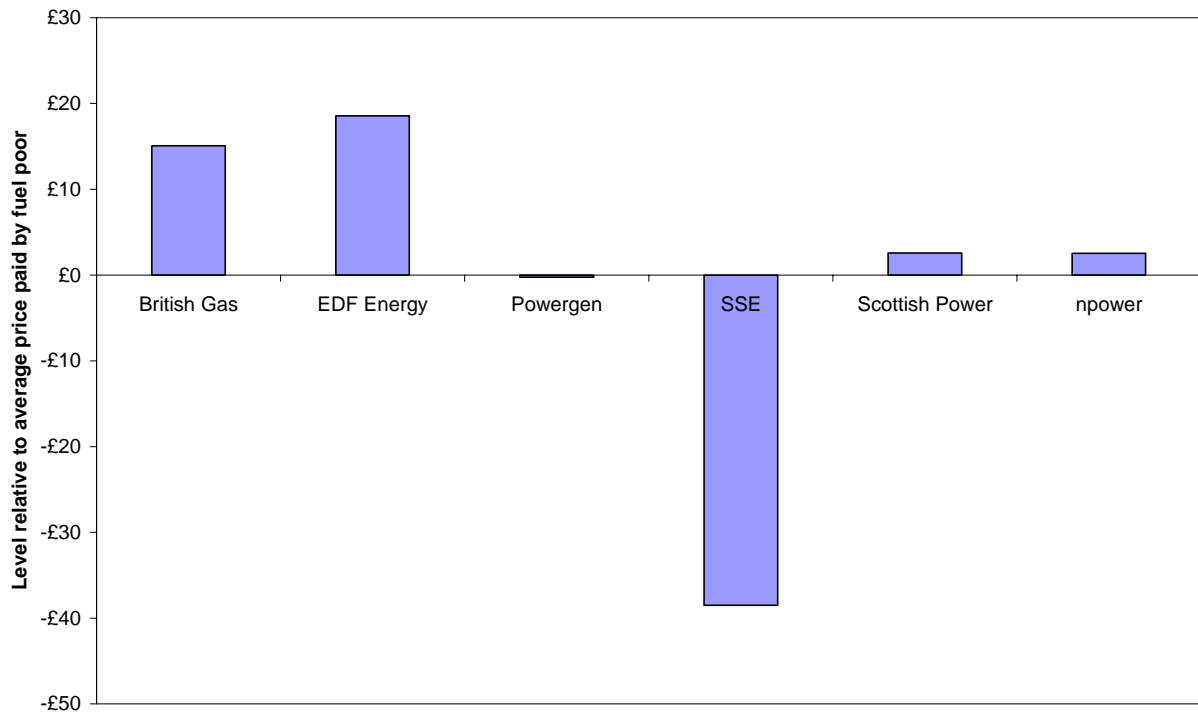
7. Tariff strategies

7.1. As noted in the August review, SSE has adopted a strategy around competitively priced energy and excellent customer service, which benefits all of its customers, including those who are fuel poor and vulnerable and hard to reach. We have undertaken further analysis to better evaluate the value to fuel poor customers of SSE’s competitive pricing strategy. Chart 4 below shows the difference in each supplier’s average annual gas and electricity bill from the average bill. The graph is formed by calculating each supplier’s average bill weighted by the proportion of fuel poor customers on each payment method. An average across all suppliers is then taken and the difference from the average is calculated for each supplier.

7.2. Chart 4 shows that SSE’s fuel poor customers will be around £40 per annum better off than the average as a result of SSE’s competitive pricing strategy.

7.3. This reiterates the benefits available to consumers through the competitive energy market. As the August review showed, if a customer is in a position to switch suppliers and to switch payment methods there are significant savings to be made and in some cases these can be greater than the savings made by taking up a social tariff.

Chart 4: Difference in each supplier's average annual gas and electricity bill from the average bill (weighted by fuel poor customers payment method)



8. Conclusions

- 8.1. This updates on "Ofgem's Review of Suppliers' Voluntary Initiatives to Help Vulnerable Customers" published in August. It highlights the changes since the August review, in particular npower's additional funding of £2.6 million to spend on vulnerable customer initiatives over the next few months, plans announced by Scottish Power to introduce a PSR Social Tariff in early 2008, and plans for npower and SSE to significantly increase the number of customers on their social tariff over the coming months.
- 8.2. It demonstrates suppliers' commitments to continue with their diverse range of voluntary social initiatives in addition to working jointly on cross industry projects such as the 2006-07 'winter initiative' mail out with DWP and the Home Heat Helpline.
- 8.3. Fuel poverty is a complex issue with no single solution. We welcome the initiatives voluntarily offered by suppliers and recognise that they have an important role to play in helping vulnerable consumers. But to achieve a sustainable solution to fuel poverty, we consider that the Government's focus must remain on improving housing and incomes for the fuel poor.
- 8.4. We wish to thank suppliers for the information they have provided to enable us to complete our August review and this update. We welcome their on-going commitment to helping those customers who are most in need and consider that all of the approaches and initiatives offered have worthwhile aims and provide assistance to some of the suppliers' most vulnerable customers. These schemes should be welcomed and recognised as valuable steps which go beyond suppliers' regulatory obligations.
- 8.5. In addition, in this update, we have sought to highlight some of the other initiatives that suppliers undertake, and provide financial support to, which do not fall into the social tariff, rebate or trust fund categories (as set out in the Annex to this letter). We hope this provides a more complete picture of suppliers' voluntary initiatives to assist vulnerable customers.

9. Next steps

- 9.1. As set out in our August review, over the next year we plan to discuss with suppliers the scope for building on the reporting framework developed to review suppliers' voluntary initiatives to help vulnerable customers.
- 9.2. We will also examine in more detail some of the issues that arose as part of the main review, such as improved transparency of Powergen's Staywarm tariff and the weighting of payment methods, to improve our analysis.

Kind regards

Maxine Frerk
Director Governance, Consumer and Social Affairs

Annex 1: Suppliers' estimate of spend on voluntary initiatives (as set out in Appendix 1 of the August review)

Company	Category	Initiative name	Supplier estimation of spend
British Gas	Social tariff	Essentials	£16,300,000
	Trust fund	British Gas Energy Trust	£1,530,000
	Partnerships	Here to Help	£1,200,000
	TOTAL		£19,030,000

EDF Energy	Social tariff	Energy Assist	£3,400,000
	Trust fund	EDF Energy Trust Fund	£1,840,000
	Partnerships	Safe Warm and Well, NEA, CAB helpline	£126,177
	Other	Winter risk campaign	£200,000
	TOTAL		£5,566,177

npower	Social tariff	First Step tariff	£135,000
	Rebate	Winter Warmth Rebate	£699,870
	Trust funds	First Step Fund	£475,000
	Partnerships	Health Through Warmth, NEA, Christians Against Poverty	£1,234,000
	Other	Spreading Warmth, Home Advisors	£1,400,000
	TOTAL		£3,943,870

Powergen	Social tariff	Staywarm	£4,400,000
	Rebate	Age Concern Cold Weather Payment	£1,600,000
	Trust funds	Severn Trent Trust fund, Hardship fund	£350,570
	Partnerships	Fuel Poverty Monitor, NEA, Warm Homes	£127,000
	Other	Test, You Rest	£219,000
	TOTAL		£6,696,570

Scottish Power	Rebate	PSR payments	£270,000
	Trust fund	Scottish Power Energy People Trust	£1,810,000
	Other	Community Liaison Officers, Fieldcall, Winter Warmer campaign, CAB helpline	£702,000
	TOTAL		£2,782,000

SSE	Social tariff	Energyplus Care	£2,000,000
	Rebate	Welfare payment	£200,000
	Partnerships	Numerous	£1,000,000
	TOTAL		£3,200,000