

ENERGY SUMMIT ON FUEL POVERTY

INTRODUCTORY REMARKS

In December 2007, Ofgem announced its intention to host a Fuel Poverty Summit. The whole tone of the Summit was not to be the broadbrush, high sounding rhetoric of political debate. Its objective would be rather to identify practical, cost effective ways to make real improvements as quickly as possible to the lives of vulnerable energy consumers and those in fuel poverty.

Since then we have seen further rises in energy prices and £225m additional funding announced in the March budget has been agreed between suppliers and Government. This makes the agreement of practical steps all the more important to ensure that the available help is directed to those who most need it.

Fuel poverty is part of a wider problem of poverty and social exclusion caused by a combination of high energy prices, low incomes and poor housing conditions. Given such wider causes, there will inevitably be a limit to the role that the regulator and industry can play in tackling fuel poverty. The main focus must be on raising incomes and improving housing, which are the responsibilities of Government. Ofgem's remit and the focus of the Summit was on tariffs and assistance provided by suppliers.

The Summit took place on 23 April at Central Hall Westminster and was attended by seven Government Ministers, a senior EU Commission representative, four Chief Executives and two senior representatives from the six major energy supply companies, together with many of those from the voluntary sector who are actively involved in the fuel poverty area (list of participants attached).

By involving different parts of Government, energy suppliers and many non Governmental agencies, the Summit was able to discuss a wide range of issues building on existing initiatives and how they could be developed into a coherent action programme to improve the targeting of help to vulnerable and fuel poor customers. This will be finalised and published in early May.

The action programme will be kept under review by Ofgem via its long established Social Action Strategy Review Group. It will also be formally reviewed in the autumn at a meeting between Ofgem and Ministers. A final draft of the programme is described at annex 1.

Ofgem's energy supply markets probe was announced on 21 February its initial findings will be reported in September. These will include a number of actions discussed in the Summit in assessing how the market is working for vulnerable and fuel poor customers and whether further initiatives can be identified.

At the Summit Ofgem outlined its Consumer First project designed to further strengthen its understanding of the issues facing domestic energy customers (including vulnerable consumers). Further announcements on new initiatives in this area will be made shortly.

Tackling fuel poverty and protecting vulnerable customers is becoming increasingly important across Europe. A consumer conference will be held on 6 May in Brussels, which will reinforce consumer and fuel poverty issues at EU level.

Sir John Mogg

Chairman Ofgem

Annexes:

- 1 – The Fuel Poverty Action Programme - Final draft for discussion
- 2 – A list of the Summit participants

Draft Action Programme discussed at Ofgem's Energy Summit Tackling Fuel Poverty, a fuller action plan will be published in May.

ANNEX 1: THE FUEL POVERTY ACTION PROGRAMME

Final draft for discussion

The action programme groups measures under **four themes**:

Theme I: Improve the way we identify and target those in fuel poverty so that the available help is directed to those who most need it;

Theme II: Ramp up the level of help available to those at risk of fuel poverty;

Theme III: Provide support so that vulnerable customers are able more effectively **to use the energy market** to get the best deal;

Theme IV: Ensure that **tariff differentials** for different payment methods are fair and justified.

Theme I: Improve the way we identify and target

There is already a great variety of help available from energy suppliers, the Government and voluntary groups for the fuel poor and other vulnerable customers. The objective of the Summit was to build on existing ways to **improve the way we identify and individually target** those in fuel poverty so that the help currently available is directed to those who need it most. A key focus therefore was on effective and practical actions to achieve this in as short a time as possible to deliver real improvements.

Identifying and reaching the fuel poor in an optimal way requires information on the individual circumstances of each customer. Energy suppliers have limited information and there are valid concerns about data privacy that providing additional information could raise. Finding solutions to this challenge calls for an effective, joined up approach, notably from within, and between Government departments, suppliers and any other agencies involved.

A second challenge is to ensure that once an individual consumer has been identified as being in, or at risk of, fuel poverty that the individual's data is protected whilst at the same time being provided with access to the full range of help available from suppliers and others.

The Summit agreed a number of key actions designed to improve the identification and targeting of individual vulnerable and / or fuel poor energy consumers while protecting data privacy.

(A) Data Sharing

The Department for Work and Pensions (DWP), the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Environment, Food and Rural Affairs (Defra) recognise the role they have to play in helping to identify the fuel poor and those vulnerable to fuel poverty and are committed to exploring how data held by DWP may be best used to ensure that appropriate help may be targeted on vulnerable groups.

Working with the energy suppliers, Defra and BERR, DWP have already undertaken two small scale winter mail-outs based on DWP data. In Winter 2006-07 100,000 customers and in Winter 2007-08 250,000 customers on Pension Credit were sent information to tell them about:

- Warm Front initiatives;
- Energy Efficiency Commitment (EEC) measures; and
- Advice about how to reduce their energy bills.

The most recent mail-out is currently being evaluated.

DWP, BERR and Defra are considering what may be possible to enable data sharing with suppliers, including legislative options.

(B) Pinpointing those most susceptible to fuel poverty

eaga is particularly well placed to help suppliers target their social programmes more accurately given that, as part of delivering Warm Front, its representatives visit individual households and, additionally, that eaga holds information on housing condition and in some cases household income, key determinants of fuel poverty. eaga and suppliers have agreed to carry out **a pilot exercise**, to be launched on 1 June, where eaga will contact a sample of 400 customers across all suppliers about the benefits of being on the most appropriate tariff and offer to transfer a customer to their supplier for more advice and help. For its part, each supplier has confirmed that it will check and confirm that the referred customer is on the lowest tariff available and will offer any other appropriate help. eaga will bear the costs of the pilot.

Similarly Warm Zones has access to information on household income and housing condition which could be used more accurately to target those in fuel poverty. Warm Zones would be willing to provide tariff advice to customers and to refer them to their supplier provided suppliers could specify clear eligibility criteria and provided Warm Zones could be confident that the supplier's social tariff would be their best tariff available.

(C) Suppliers to provide greater visibility of their offers

Trusted intermediaries – for example, front line agencies such as CAB and Money Advice Trust - have a vital role to play in communicating to individual customers the range of help available. Given the complexity of every tariff structure even these agencies can also struggle to understand what is on offer. There is a need for advisors to have access to clear information to enable them to carry out this role effectively. Moreover, the greater the degree of commonality in approach between the suppliers, the easier it is for such intermediaries to advise and target clients who are most eligible and provide informed advice to them.

Suppliers agreed to take immediate steps to improve the transparency of their social programmes notably to provide:

- a. **Clear information in a simple form** on their websites and other promotional material, setting out the **social tariffs** and programmes they provide and the eligibility criteria for them. This will facilitate the role of advice organisations, switching sites and other intermediaries in accessing and making this information available to their clients.
- b. Each supplier will provide and publish a **direct phone number** to route trusted intermediaries' calls to a specialist team able to provide help and information for customers who are vulnerable or in fuel poverty. On referral from the intermediary, that team will examine and verify whether the customer is on the best tariff available to them and offer other help. The Information Commissioner's Office will advise suppliers how to establish these arrangements to ensure that no issues of confidentiality result from this referral process.
- c. Suppliers will also review the effectiveness of the **Home Heat Helpline** (currently run by the ERA) as part of their social programmes, to provide an additional general gateway through which consumers and advisers can access information on the range of help available.

(D) Signposting by intermediaries to the help available

All the consumer groups and switching sites welcomed the commitment to **greater transparency** that would ensure that information about each supplier's social initiatives was more easily available. The consumer groups agreed to use this information to **renew their efforts to direct consumers to the help available**. For example CAB agreed to make the information available to their network of advisers and to produce content for advice columns for individual bureau to use.

The CAB campaign referred to below (at (K)) also covers advice on the range of help available and making these materials more widely available will help other agencies in providing this advice.

Switching sites can potentially provide more **targeted information** to **vulnerable customers**, signposting them to the range of help available. Providing that suppliers provide clear information in a simple form on their websites about the social tariffs and programmes they provide, Which?, Moneysupermarket and uSwitch agreed to incorporate this on their websites and provide training enabling their call centres to provide information about each supplier's social programmes to those who might be eligible.

(E) Area Based Initiatives

Experience from the **Warm Zones** operated by Warm Zones Limited and supported by a number of energy companies including National Grid, Scottish Power and EDF Energy, together with other regional and community-based programmes shows that area-based initiatives that focus on a whole community/whole house approach are one of the most efficient and cost-effective way of identifying and helping the fuel poor. Such programmes can ensure the best possible co-ordination of Carbon Emissions Reduction Target (CERT) and Warm Front measures under the schemes as they currently exist, and can also deliver high-value initiatives such as the provision of mains gas connections and microgeneration technologies on a community basis. The additional services provided, including full income maximisation support, ensure a holistic approach which secures maximum benefit for the low-income households assisted. The approach also engages with the most vulnerable households who do not generally self refer to current grant programmes and other assistance.

Warm Zones Limited will continue to work with local and central Government and suppliers to seek to build on this approach.

Theme II: Ramp up the level of help *available to those at risk of fuel poverty*

(F) Delivering on the budget commitment

Following the Chancellor's budget announcement suppliers have agreed to **increase their collective expenditure** on social assistance to a level of at least **£150 million** by the financial year 2010-11 – an increase of £225million over the next three years. Each supplier will provide a range of different forms of help for vulnerable consumers and will seek to identify those customers eligible for their social help through a range of measures.

Given that the costs of this could ultimately be borne by consumers it is all the more important that the help is effectively targeted at those who need it most.

As part of the Government/suppliers agreement, Ofgem has agreed to lead a process to set the parameters for what can be included under the spend and the reporting arrangements associated with this. Ofgem have already sought the views of suppliers and other key stakeholders and will publish proposals for consultation by the end of May to establish the final framework by the end of June.

As BERR have made clear, this is a non-statutory process. For it to work, suppliers need to agree to abide by the outcome of this process. Should suppliers fail to agree to, or comply with the arrangements at any stage Ofgem will flag this to BERR for the Department to consider the basis for the voluntary approach going forward.

(G) Supplier best practice

The scale and monetary value of the social programmes developed by suppliers will clearly increase following the Budget agreement. It is therefore even more important than before that these programmes are effectively targeted. Each supplier has committed to review their targeting and, as part of the proposed reporting arrangements Ofgem will invite suppliers to discuss what can be learnt about the most effective **targeting** strategies to enable an exchange of best practice across the industry. Subject to any commercial confidentiality issues, Ofgem will include these examples of best practice in its published report.

(H) Winter Fuel Payment

DWP provides assistance through the Winter Fuel Payment which provides a significant contribution to pensioners' winter heating bills. Last winter (2007-08) the Winter Fuel Payment helped around 12 million older people.

The Chancellor announced in the Budget that next winter (2008-09) there will be an additional payment of £50 for households with someone aged 60-79 and £100 for households with someone aged 80 or over. This payment provides reassurance to older people that extra money for fuel costs will be available next winter.

Theme III: Help vulnerable customers actively to engage in the energy market

Recent large increases in energy prices are placing an increasingly heavy burden on people on low incomes and other vulnerable customers. Many cannot, or do not, take advantage of the best tariffs offered in the market which would help to alleviate the worst effects of rising prices. Indeed, if all customers (including the vulnerable and those on low incomes) were to switch to the best rate, this would take up to 200,000 households out of fuel poverty¹.

Ofgem's energy supply **markets probe** will analyse whether the retail market is operating effectively and meeting the interests of all consumers. It will identify and report on possible barriers to switching, including the issue of debt blocking.

Recent research², as part of Ofgem's Consumer First initiative, indicates that there are still barriers that prevent vulnerable customers from switching and getting a better deal.

In particular, vulnerable customers often:

- lack knowledge of the potential savings available;
- dislike talking to company sales representatives;
- lack confidence in switching and possibly the knowledge or means of doing so;
- fear that something may go wrong if they switch – a particular concern for those on low incomes who are least well placed to escape the consequences of any errors made.

A number of initiatives were identified to help tackle these difficulties. Clearly the challenge is not simply to promote switching but to ensure that customers are making informed choices. This links with theme IV below.

(I) Improving switching sites' accessibility

¹ The UK Fuel Poverty Strategy 5th Annual Progress Report, BERR, December 2007.

² <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications>

Ofgem research has highlighted switching sites are rarely used by vulnerable customers. While a third of customers in social class AB used a switching site the last time they switched their gas supplier, only 8 per cent of customers in social class DE did³. The reasons for this disparity include the lack of access to computers and the internet; a reluctance to initiate switching; poor financial literacy and difficulty in handling sometimes complex transactions. For PPM customers the fact that most switching sites have not offered the facility for PPM switching online is a further barrier.

To tackle these issues:

- a. Some switching site providers have committed to providing Information on switching supplier to vulnerable customers in a more accessible way through the **telephone** rather than only the internet. For example, Which? provide a free phone telephone service which they regularly publicise and are developing initiatives to hold face-to-face switching days.
- b. It will be made **easier for PPM customers to switch online**, helping low income customers who are more likely than other customers to use this method of payment. The switching sites and suppliers indicated that they are committed to working together to enable PPM switching on-line.
- c. More **specialist sites** for vulnerable consumers could also help. Unravelit.com (which runs a number of white label switching sites for organisations such as the Guardian and Tesco) now publishes information on the cheapest prepayment meter tariff available from Ebico. They also allow customers to switch to this tariff via their site.
- d. The Confidence Code is a code of practice for switching sites. In order to improve the level of accessibility and services that existing switching sites provide for vulnerable customers, as part of ongoing commitments to review ways to improve consumer information and empowerment Ofgem and the new National Consumer Council (NCC) will **review the Confidence Code** with a view to including a requirement for all accredited switching sites to provide specific support for vulnerable customers.

(J) Taking forward the consumer education role

Switching sites are not the only source of information and comparative data. New NCC confirmed that an important part of its new role from 1st October will be to help ensure

³ <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications>

vulnerable customers are better informed and empowered, building on the work previously undertaken by energywatch.

Ofgem and new NCC will continue to work together to take forward the key elements of this consumer information and education work. Key amongst these activities will be:

- a. The production and distribution of **price comparison** information, including leading discussions with Consumer Direct, advice organisations and other trusted intermediaries and consumer groups to develop the most effective format for this information and agree how it can best reach more vulnerable consumers.
- b. The production and distribution of straightforward step-by-step **guidance** on how to switch supplier, based on the materials used in the recent 'Energy Best Deal' campaign pilot launched by Ofgem and CAB in January.

(K) Using trusted intermediaries

Trusted intermediaries already play an invaluable role in clarifying and explaining the help that is available from government and energy suppliers to vulnerable consumers including advice on how to change supplier or payment method. A number of actions were agreed to **support** them in **providing that advice**.

- a. The '**Energy Best Deal**' campaign piloted by Ofgem and CAB has proved successful. Ofgem and CAB are in discussion with Government about rolling this out on a national basis, providing training sessions for a wide range of front line advice workers as part of the CAB's financial capability work. The principal objective has been to help **raise awareness** among low-income consumers of the savings that can be made by switching supplier and/or payment method and help to provide reassurance about the switching process.
- b. Material (similar to that used in the CAB 'Energy Best Deal' campaign) will be made available to other consumer groups and advice organisations.
- c. A **QuickQuote** tool developed by uSwitch, will allow trusted intermediaries to more easily give tariff information. uSwitch plan to explore how this tool might be used by voluntary agencies and will work with interested parties to develop the tool to meet their needs.

Theme IV: Tariff differentials

*Ensure that **tariff differentials** for different payment methods are fair and justified.*

As part of its ongoing market surveillance Ofgem has updated its analysis and recommendations on tariff differentials from June 2007. The headlines are set out in a short report published alongside this programme. Further work will be undertaken as part of the energy supply **markets probe**.

It is particularly important that we do everything we can for vulnerable and fuel poor customers to enable this group to access the most competitive offers in the market and to make sure that differences in tariffs between payment methods are kept as low as possible. We also need to keep the market under review to make sure competition remains effective between suppliers and the difference between the best offers for different payment types reflect no more than the difference in cost to serve.

Some suppliers offer social tariffs which do not involve any differential by payment type: thus PPM users do not face a higher charge than those paying by, for example, direct debit. It is particularly important that such tariffs are targeted to ensure that they benefit low income or fuel poor customers.

The premiums paid by both prepayment and standard credit customers over direct debit have, on average, significantly risen in recent years. The average differential between prepayment and direct debit of the six main suppliers has increased from around £80 at the beginning of 2005 to around £125 now, an increase of more than 50%. Over the same period, the average differential between standard credit and direct debit increased from around £40 to £80, an increase of 100% (see tariff differentials summary). Certain suppliers have increased differentials substantially, raising the question of whether such differentials do indeed now reflect costs. There is also evidence of PPM customers switching (probably unknowingly) to more expensive providers. As part of its probe Ofgem will be looking at the costs of different payment methods and considering whether any further action is required when Ofgem reports in September.

A number of actions are already being taken to help ensure that tariff **differentials for different payment methods are fair and justified**.

In the longer term the rollout of smart metering has the potential to help overcome some of the disadvantages of PPMs by replacing our expensive and outdated PPM meters and infrastructure with more reliable meters that can also offer customers better service, tariffs and information to help them manage their energy use.

(L) Compliance with existing legislation

To ensure that suppliers comply with existing licence and other obligations, Ofgem has:

- a. Required explanations (on websites and in the information provided to their customers), of the **advantages and disadvantages of using prepayment meters**. The aim is that where customers pay more because of their choice of method of payment, they should be aware that they are doing so. Ofgem has made clear to suppliers what it expects and has required suppliers to make a number of changes to their websites to comply with this obligation⁴.
- b. Announced a formal investigation into a potential breach of the marketing licence condition by npower. Any other possible instances of mis-selling, in particular involving vulnerable customers will similarly be taken very seriously.
- c. Ofgem will extend the guidance issued under the 2007 supply licence review to cover the implications of new Consumer Protection Regulations for licence compliance once the Regulations come into effect.

(M) Possible new licence obligations

EU directives require that any difference in terms and conditions for different payment methods should reflect the costs to the supplier of the different payment systems. In light of the emerging evidence on differentials, Ofgem is discussing with BERR how this could be better reflected in suppliers' licences.

As part of its ongoing analysis of tariff differentials Ofgem will also publish shortly an open letter seeking further evidence on the issue of customers switching to more expensive providers and seeking views on possible actions that could be taken to address this. Such actions could include a requirement on suppliers to alert customers where they are switching to a more expensive supplier.

(N) Press campaign

Ofgem will continue its regional and national press campaigns outlining the savings that any customer paying by prepayment and standard credit may make by switching supplier or payment method and highlighting those suppliers that are more expensive for customers paying by these payment methods.

(O) Market probe to consider need for further action

As part of its Market Probe Ofgem is looking further at tariffs for prepayment customers and those who do not pay their energy bill by direct debit. Further actions to either

⁴ Further details are available on the enforcement section of Ofgem's website.

improve the operation of supply markets or protect the interests of vulnerable customers may follow from the probe findings.

FOLLOW-UP ACTION

The Chairman of Ofgem will meet with Ministers in six months to review progress ahead of the winter.

Work continues by the European Commission on the liberalisation of energy markets across Europe and the implementation of the third package. These developments mean that Regulators across Europe will increasingly be working more closely together to promote and protect the interests of consumers, particularly vulnerable consumers. The consumer conference to be held on 6 May in Brussels will provide the opportunity to take forward discussions of such issues across the Union.

ANNEX 2: Ofgem's Energy Summit on Tackling Fuel Poverty

Attendees

Organisation	Name	Role
Age Concern	Gordon Lishman CBE	Director General
BERR	Edmund Hosker	Head of Energy Markets Unit
BERR	John Hutton MP	Secretary of State for Business Enterprise & Regulatory Reform
BERR	Matilda Quiney	Director Market Instruments, Energy Markets Unit
BERR	Malcolm Wicks MP	Minister of State for Energy
BERR	John Williams	Special Advisor
Centrica	Ian Peters	Managing Director
Citizens Advice Bureau	Jackie Nowell	Head of Partnership Development
Defra	Mike Anderson	Director General
Defra	Hilary Benn MP	Secretary of State for Environment, Food & Rural Affairs
Defra	Anne Sharp	Director Domestic Climate Change & Energy
Defra	Phil Woolas MP	Minister of State for Environment
Department for Health	Dr Jo Nurse	Consultant in Public Health
DWP	Evelyn Arnold	Fuel Poverty Team
DWP	Mike O'Brien MP	Minister of State for Pensions Reform
DWP	Alan Woods	Director for State Pensions, Pension Reform & Ageing Society
E.On	Dr Paul Golby	Chief Executive Officer
eaga plc	John Clough MBE	Chief Executive Officer
EBICo Ltd	Hugh Lee	Chairman
EDF Energy	Eva Eisenschimmel	Chief Operating Officer
Energy Action Scotland	Norman Kerr	Director
Energy Retail Association	Duncan Sedgwick	Chief Executive Officer
energywatch	Adam Scorer	Director of Campaigns
European Commission	Jacqueline Minor	EC Director of Horizontal Policy Development
Fuel Poverty Advisory Group	Prof. John Chesshire OBE	Acting Chair
Fuel Poverty Advisory Group	Peter Lehmann	Former Chair
Gas and Electricity Markets Authority	Sir John Mogg	Chairman
Gas and Electricity Markets Authority	Jayne Scott	Non-Executive Director

Help the Aged	Leen Petre	Policy Officer
HM Treasury	Ben Day	Senior Policy Advisor
Information Commissioner's Office	Phil Jones	Assistant Commissioner, Director of Data Protection Practice
Local Government Association	Philip Mind	Senior Policy Consultant
Money Advice Trust	Joanna Elson	Chief Executive Officer
Moneysupermarket.com	Paul Schofield	Head of Utilities
National Consumer Council	Lord Larry Whitty	Chairman
National Energy Action	Jenny Saunders	Acting Chief Executive Officer
National Energy Action Wales	Nuria Zolle	Director NEA Cymru
National Grid Gas	Nicola Pitts	Head of UK and EU Public Affairs
National Housing Federation	Chloe Hardy	Head of Campaigns
National Right to Fuel Campaign	Lesley Davies	Chair
npower	Andrew Duff	Chief Executive Officer
Ofgem	Alistair Buchanan	Chief Executive Officer
Ofgem	Maxine Frerk	Director, Governance, Consumer & Social Affairs
Ofgem	Sarah Harrison	Managing Director, Corporate Affairs
Ofgem	Andrew Wright	Managing Director, Markets
Prime Minister's Policy Directorate	Michael Jacobs	Senior Policy Advisor
Prime Minister's Policy Directorate	Geoffrey Norris	Senior Policy Advisor
Public Utilities Access Forum	Gill Owen	Chair
Scottish Government	Stewart Maxwell MSP	Minister for Communities & Sport
Scottish Government	Iain Monk	Chief Press Officer
ScottishPower	Jose Luis del Valle	Chief Executive Officer
Scottish & Southern Energy	Ian Marchant	Chief Executive Officer
The Pension Service	Nigel Richardson	Customer & Acquisition Director
uSwitch	Ann Robinson	Director of Consumer Policy
Warm Zones	William Gillis	Director
Welsh Assembly Government	Jane Davidson AM	Minister for Environment, Sustainability & Housing
Welsh Assembly Government	Julia Williams	Head of Energy Efficiency & Sustainable Buildings
Which?	Helen McCallum	Director of Policy, Campaigns & Communications

Observers		
BERR	Tom Child	Private Secretary to Mr Hutton
BERR	Helen MacBain	BERR Press Office
Defra	Penny Fox	Senior Press Officer, Climate Change
Defra	Rebecca Evernden	Private Secretary to Mr Benn
Defra	Kathryn Wood	Private Secretary to Mr Woolas
Defra	Pam Wynne	Head of Fuel Poverty
DWP	John Veness	Private Secretary to Mr O'Brien
Ofgem	Angela Bourke	Head of Consumer Policy & Social Research
Ofgem	Jude Cummins	Head of Consumer & Social Affairs
Ofgem	Charles Gallacher	Director, Corporate Communications & Scotland
Ofgem	Trevor Loveday	Head of Communications
Ofgem	Claire Tyler	Senior Manager, GB Markets
Scottish Government	Janet Egdell	Team Leader, Fuel Poverty
Scottish Government	Laura Hitchings	Private Secretary to Mr Maxwell
Welsh Assembly Government	Anna McMorrin	Special Adviser