

Sarah Piggott
Ofgem
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2nd May 2008

Dear Sarah

Ofgem monitoring of suppliers' social programmes

Thank you for your letter of 21st April 2008.

We consider that it is of pressing importance to develop and publish clarification as to what spend contributes to, and is within the scope of the £225m funding committed by the industry over the next three years. Your letter indicates your intention to put out a framework for consultation at the end of May, followed by a final framework by the end of June. We would press for earlier confirmation to this on the basis that suppliers have been required to commit to initiatives which deliver in the year already started even though we have no firm clarity on what initiatives are within scope of the commitment.

More particularly, we require confirmation that current collective initiatives, such as the Home Heat Helpline would be within scope. Similarly, for key commitments such as any data sharing schemes with DWP or other such government departments, we would like the assurance that the costs incurred by the energy suppliers in establishing and administering protocols and operational processes etc would also be included.

Going forward, we would urge the need for flexibility to be built into the governance and controls so that we may be able to innovate further in terms of providing assistance. We have mentioned previously our desire to make more accessible such measures as solid wall insulation; heating replacement, the provision of benefits health checks, specific fuel poor helplines etc all of which can positively contribute towards providing assistance to those fuel poor households who may otherwise have been excluded, but where to date the cost of fulfilment has rendered them unfeasible. It would be extremely beneficial for these to be added to the eligibility list.

Whilst such flexibility will provide us with the opportunity to invest in what would otherwise have

been cost prohibitive schemes, we do need to find the right balance and not end up with unintended consequences. For example, we have real concerns that for other areas, such as the pressure for suppliers to provide social tariffs that are equalised with on-line tariffs, the cost per account subsidy will rise substantially and as a result far few people will be helped out of fuel poverty given the supplier cap to £150 million.

In terms of your principle question as to methods used to monitor supplier's social programmes, we need clarity on the objectives of this reporting, and the degree to which it will need to be "auditable" by external parties.

The current methodology adopted for reporting social tariffs is arguably imperfect. It is purely based upon the financial benefit to consumers. What it does not include are the operational costs to support them. Yet, by comparison, the figures reported as being a donation to support a Trust Fund will be a combination of grants made to consumers/agencies plus also the operational costs of supporting the Trust Fund. This is an obvious inconsistency. The methodology for attributing value against the £150m commitment regarding lower standard tariffs is very sensitive to differences in timing of suppliers' price movements, consumption profiles, regional in /out of area mix, payment type etc. We acknowledge the complexity in this area, and have no straightforward proposal to put forward as an alternative but in effect it is value ascribed against a trade weighted index with many independent variables, so not unambiguous and definitive.

One additional aspect is that with the increased emphasis and focus on all parties to deliver more innovative initiatives, suppliers will inevitably look to develop bundled propositions that incorporate both fuel poverty and CERT funding streams. As a market development, this should be encouraged. However, from a reporting perspective we need to ensure complete transparency so that spend on fuel poverty qualifying initiatives is identified separately from CERT. This will avoid any risk of double counting.

We would therefore look for any future reporting by Ofgem to take into account the full operational cost of supporting qualifying schemes; whilst reflecting the actual benefits being delivered to the consumer, together with the number of customers being helped. This way the reporting will more realistically reflect the full extent of the investment being made and the progress of suppliers in meeting their funding commitments.

We are happy to discuss any aspect arising and look forward to early clarification on these points

Yours sincerely

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

Philip Arend
Senior Regulatory Manager