

Maxine Frerk
Director, Governance, Consumer and Social Affairs
Ofgem
9 Millbank
London SW1P 3GE
2008

6 May

Dear Maxine

Ofgem monitoring of suppliers' social programmes

We welcome the role Ofgem has taken on in ensuring that the voluntary agreement reached with Government meets the aim of a stable, predictable framework for suppliers' measures targeted at the fuel poor and groups vulnerable to fuel poverty up to March 2011.

We believe that the role can only be delivered if Ofgem is flexible in allowing innovative proposals and in relying on supplier valuation of the benefits. We therefore welcome Ofgem's intent to publish a framework in June and not seek to develop a detailed methodology of programme evaluation. The framework must not however be regarded as final; new programmes will inevitably raise new issues and it is a paramount that innovation which helps tackle fuel poverty, and points the way to the development of means of eradicating fuel poverty post 2011 is not discouraged.

The framework should include four elements:

- A. Process for endorsement of initiatives
- B. Principles for eligibility of initiatives
- C. Principles for calculation of benefits
- D. Audit process

A. Process for endorsement of initiatives

The key to an efficient process is clear principles. Suppliers can then be confident that initiatives which seek to alleviate fuel poverty will be endorsed.

We do not expect to have to seek prior endorsement, but if an innovative programme requires some advice would expect the onus to be on the supplier to present both sides of the issue and then only expect Ofgem to give indicative advice (experience shows that proposals change between seeking advice and final implementation).

Ofgem should publish any advice given (unless to do so would breach commercial confidentiality), as an aid to suppliers developing new programmes and to inform other stakeholders.

B. Principles for eligibility of initiatives

The initiatives recognised in Ofgem's August and October 2007 reviews are a suitable starting point for eligibility, with the addition of two guiding principles:

- Programmes aimed at fuel poor customers, particularly those most vulnerable to fuel poverty, or other vulnerable customers in severe hardship are eligible.
- Programmes which are less well-targeted on the fuel poor (eg. aimed at low income customers in general) are eligible, if additional to normal market activity.

Note that the criteria for eligibility should be intent (to alleviate fuel poverty), not effectiveness, or this would discourage innovation, particularly in the area of advice to customers, which we believe is essential in order to eradicate fuel poverty. Ofgem should of course challenge suppliers to report on effectiveness, and share best practice, but should not want to be the arbiter of whether initiatives such as the Home Heat Helpline should continue.

There should be few, if any, restrictions on the scope of programmes which aim to tackle fuel poverty (the calculation of additionality to other programmes, such as CERT and Warm Front, should be covered in the calculation of benefit; see C. below). Example measures would be:

- Financing property improvement to reduce energy need
- Individual advice to customers, including how to use energy efficiently and help with accessing financial support

We recommend Ofgem consult on whether research programmes to identify more effective means of tackling fuel poverty should be eligible. Research is needed to identify means of reaching more vulnerable customers and tackling harder to heat properties and fits well with supplier capabilities, as an action suppliers can take to tackle fuel poverty. However, stakeholder support is needed if resources are not to be used for immediate customer benefit.

C. Principles for Calculation of Benefits

We have no comment on Ofgem's methodology for "best offer prices" and "pricing strategies," which we see as providing background information on supplier pricing and outside the agreement (though in accordance with our principles, would be open to a supplier to make the case for eligibility).

Social Tariffs

We do not believe Ofgem should seek to define a prescribe methodology (which could never capture all the complexity of price changes, payment methods and consumption levels), but should require the supplier to propose and explain its calculation.

We would be prepared to do this for the Staywarm social programme later this year, for the financial year 2007/8, and of course would expect to do it next year (we suggest by end June), for 2008/9.

The principle is the same as for any other social tariff - the saving is the difference between the cost of a standard product for that customer (i.e. for that customer's consumption) and the price actually paid (on the social tariff). The nature of Staywarm requires the calculation to be done for each customer, but this also makes it more robust, as actual consumptions are used. For simplicity we would do the calculation at a single point in time, unless the relative movement of standard and social prices made this inappropriate.

Rebates

Similarly, we believe suppliers should propose and explain the calculation, not Ofgem (it is a point of principle - we agree with Ofgem's methodology for the cold-weather payment for our Age Concern product – but there can be more complex situations).

Financing Property Investment

The supplier would propose and explain the calculation. Illustratively, additionality might be:

- The additional financing to offer a measure free, which is only partly supported by another scheme (e.g. solid wall insulation or other measures not economic in CERT; Warmfront top-ups).
- The additional marketing costs to improve targeting of measures on customers more likely to be fuel poor

Individual advice to customers

The supplier would propose and explain the calculation, using similar principles to the Energy Demand Reduction Programme – i.e. that additional operating costs are eligible (mostly staff costs and system set-up), but not fixed overheads.

D. Audit process

Ofgem should have full transparency of a supplier's methodology, but as with other Ofgem submissions, would not audit the actual calculations.

We propose three months are allowed to complete the submission for the previous financial year.

Finally, we would encourage Ofgem to go beyond confirmation of spend on eligible schemes to offer views on the merits of schemes in meeting the objectives of the agreement to target help at the fuel poor and to provide any other background commentary.

If you would like to discuss these ideas in more detail, please do not hesitate to contact me on 02476 181 358.

Yours sincerely

Graham Kirby
Retail Regulation Manager

