

## **FPAG RESPONSE TO OFGEM REVIEW OF SUPPLIERS' SOCIAL INITIATIVES**

**Prof John Chesshire, Acting Chair, FPAG**

FPAG is grateful for the opportunity to respond to your request for views on Ofgem's monitoring and reporting of suppliers' social initiatives to help vulnerable customers. I understand several Member organisations of FPAG have submitted their responses to you directly.

As you know, FPAG published its Sixth Annual Report (2007) in March 2008. In that report FPAG stated that:

### **Page 3** under '**Summary and Key Recommendations**'

'On the differentials between payment methods, it seems probable that there will be progress on prepayment prices and on social tariffs and programmes. It is important that some attention should also be paid to customers paying by cash/cheque. In addition there should be a real drive to secure the installation of low cost, pay-as-you-go smart meters, which are available and which could provide a sustainable lower cost solution for many low income customers'.

### **Page 10** under the 'Tariff differentials' section of '**Energy Prices**'

'About three quarters of gas and electricity costs are wholesale supply and transportation, in which there is little difference between prepayment and direct debit costs; the £145 differential thus represents over 60% of the remaining elements of the price.

The position is even worse than this, because a number of companies are now offering very cheap online tariffs, around £100 below "normal" (offline) direct debit. The average price gap between prepayment and online for 2 fuels is over £250 pa. And those customers staying with their traditional supplier for electricity and gas are paying on average a striking £360 more on average than if they took both fuels online from their traditional electricity supplier.

Ofgem in its Domestic Retail Market Report (June 2007) estimates that costs to companies for a prepayment customer for both fuels are £85 more than the costs for a direct debit customer. The costs for a standard credit customer are £20 more than for a direct debit customer. Thus the gap in prices paid by customers is far greater than the gap in costs. Prepayment and standard credit customers are therefore significantly subsidizing direct debit customers'.

### **Page 10** under the 'Social Tariffs' section of '**Energy Prices**'

'Ofgem did useful work on suppliers' social tariffs and social programmes, following a suggestion from FPAG, and the Government was supportive of this work. FPAG in its analysis of the Ofgem work highlighted two companies that were lagging in their

social programmes: Npower and Scottish Power. Both of these have now introduced more extensive social tariffs or have committed to do so. This has reduced the divergence between the suppliers' existing or planned programmes. FPAG's work based on Ofgem data takes account both of social programmes and the overall prices charged by different companies to low income customers. It seems to us to be important that both aspects are considered in any analysis'.

**Page 12** under the 'Recommendations on Relative Prices' section of '**Energy Prices**'

'It will be important to ensure that no more prepayment meters are installed than necessary in debt situations e.g. where payment by instalments or fuel direct would be feasible.

The price comparison and switching sites should provide the same facilities for prepayment as for other customers. The debt blocking situation should be reconsidered especially but not only where the receiving company is willing to take on the debt.

Smart pay as you go meters are now available which would significantly reduce the cost to serve of prepayment customers. There should be a determined drive by Government and Ofgem to secure the installation of such meters at the earliest possible opportunity.

Banking arrangements can make a contribution by encouraging more customers to pay by direct debit and the Treasury should play a significant role here'.

**Page 22** under '**Smart Meters**'

'Smart meters are potentially good news for customers generally and low income customers in particular. The provision of low cost "pay as you go" meters would be a major breakthrough and accurate bills with no estimates would provide significant benefits.

The decision should be made to introduce Smart meters for all customers over a specified time period, and this should be mandated by Government to avoid long delays in resolving some of the issues.

If this is only being done gradually then we would strongly recommend fast tracking Smart meters for prepayment customers.

Whilst it is important to realise the potential of Smart meters for a number of objectives it will be essential to avoid over sophistication and unnecessary costs in the specification of meters, and to avoid consumers bearing an unfair burden of costs'.

Other than the above extracts from the FPAG Annual Report, several other points should be considered by Ofgem:

Given the rapid growth of those in fuel poverty caused by significantly higher energy prices, it is important that the schemes are implemented quickly, transparently and in a 'user friendly' manner – both for the final recipients and for any intermediary partners involved in their delivery.

Ofgem's monitoring of suppliers' social initiatives to help vulnerable customers should be analytically rigorous; and Ofgem's reporting should be fully transparent. No doubt, much learning will occur. It is important to ensure that best practice is shared quickly (as also the lessons of less-successful approaches). Effective targeting of the additional £150 million will be critical if this expenditure is to make a real difference.

At the recent Ofgem Fuel Poverty Summit, it was stated by suppliers that this £150 million over the three-year period 2008-11 is *additional* to the estimated £50 million p/a currently spent by the suppliers on their existing social initiatives. It will be important for Ofgem to evaluate (i) the *overall* expenditure by suppliers' on social initiatives; (ii) to assure itself that there is genuine 'additionality' of spend; and (iii) that the *incremental* £150 million does not reduce existing social expenditure.

Finally, welcome though this initiative is, FPAG remains concerned, for the longer term, about the rapidly changing balance which is now occurring between much higher 'revenue' expenditure on fuel poverty (e.g. suppliers' social initiatives and the increase in Winter Fuel Payments) and the regrettable reduction in 'capital' expenditure - principally via the Warm Front programme. The only sustainable route to tackling fuel poverty in an era of higher energy prices is to 'fuel poverty-proof' the housing stock.

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