

**By e-mail only**

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Dear Sarah,

**Ofgem monitoring of suppliers' social programmes**

Thank you for the opportunity to express our views regarding the monitoring and reporting of suppliers' social initiatives to help vulnerable customers. This will be vital in making sure that any comparisons that are made are on a like for like basis. It will also enable the efficacy of measures to be assessed more easily.

We appreciate that this exercise is the commencement of a wider consultation process, which will take several months to complete. It has already been recognised that suppliers need to continue existing social initiatives during this period and for the foreseeable future. In his letter dated 8 April 2008 John Hutton wrote to suppliers' CEOs and provided the following reassurance. "*Should you be continuing measures outlined in the Ofgem report, it would be a reasonable presumption that these would count towards your contribution*". Whatever the outcome of the consultation process this assurance should be honoured.

Going forward, we believe future reporting should be, primarily, outputs based, focusing on the impact that different approaches have on the alleviation of fuel poverty, in order to create comparative competition and to incentivise efficient initiatives that can be seen to work. As you know, outputs monitoring is increasingly use by regulators of monopoly utilities when they design RPI-X price controls.

As energy suppliers' committed spend is to be targeted towards households who are in fuel poverty or vulnerable from fuel

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poverty, it is important that Ofgem's monitoring assesses the impact of suppliers' voluntary initiatives on these households. An output analysis would determine the extent to which these households have been lifted from fuel poverty. For example, energy efficiency measures are a key part of the solution to fuel poverty. Whilst the spend on these measures and the energy savings they generate undoubtedly fall outside of analysis on voluntary spend (because they are counted as part of the mandatory CERT programme), Ofgem's monitoring should include the annual financial saving on a customer's energy bill from the projects arising from suppliers' social expenditure in determining whether a household has been lifted out of fuel poverty. This would encourage energy suppliers to develop integrated programmes which will, more effectively, benefit vulnerable customers.

We have previously outlined a possible framework for a monitoring approach, which focuses on both supplier inputs and customer benefits in a letter to Angela Bourke, a copy of which is attached.

If Ofgem decides to continue with the current inputs based approach, it is imperative that certain key principles are established to ensure that suppliers are given the maximum flexibility to determine how their contribution can be spent most effectively and to make the arrangements as consistent as it is possible with the competitive market:

**The current weighting arrangements used to calculate the average savings made by moving to a social tariff should only be utilised where a supplier is unable to provide more accurate data.** The current arrangement disincentivises assistance targeted at certain customer groups, for example, prepayment customers or those with high consumption levels, as the additional costs of the support provided to these groups will not be recognised within analyses based upon weighted averages.

**A supplier's opex costs (ie the costs of providing the service) spent assisting vulnerable customers should be given equal recognition with direct support such as rebates or social tariffs.** An opex based initiative, such as benefits entitlement checks, can deliver outputs for customers which are at least as valuable as a direct rebate or social tariff.

**The cost of all initiatives which benefit vulnerable customers and which is not a direct statutory or licence obligation should be included within the expenditure reported.** This would include the funding for collective initiatives, such as the Home Heat Helpline and any future DWP mailings aimed at targeting the fuel poor. Similarly, funding for initiatives agreed at the recent Fuel Poverty

Summit, such as the operation of a direct phone line for third party intermediaries manned by a specialist team and any future rollout of the Eaga trial should also be included.

Finally, as outlined within previous correspondence to Maxine Frerk dated 14 April 2008 our PPM tariff differential is already less than our cost differential, we would expect any further erosion of the differential as a result of Government or Ofgem policy to count towards our contribution.

I hope you find the above helpful. If there is anything about which you require clarification, please come back to me.

Yours sincerely,

Paul Tonkinson  
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