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Dear Sarah

Ofgem Monitoring of Suppliers' Social Programmes

Thank you for your letter seeking ScottishPower's views on the monitoring and reporting of suppliers' social initiatives to help vulnerable customers. As the spend required on social initiatives is set to increase significantly over the next three years ScottishPower recognise the importance of ensuring future initiatives are monitored to ensure spend targets are met and met effectively.

ScottishPower welcome Ofgem's recognition that suppliers have adopted many different approaches to assist vulnerable customers and BERR's intention that suppliers use social programmes to innovate and compete in this area. Bearing these statements in mind, we have firstly outlined our views on how the parameters for social initiatives could be set, before providing our thoughts regarding the monitoring and reporting of the social initiatives suppliers undertake.

1. Setting the parameters for qualifying social spend initiatives

Setting the parameters for qualifying social initiatives requires a) the factors which cause customers to become vulnerable/fuel poor and b) the context in which vulnerable/fuel poor customer programmes will be delivered to be taken into account.

a) Qualifying programmes should address one or more of the factors which cause customers to be vulnerable/at risk of fuel poverty

Vulnerable customers/those at risk of fuel poverty, are hard to identify. Fuel poverty, defined as spending more than 10% of the household income on fuel, is caused by three factors, the cost of fuel, the thermal efficiency of the home and the income of the household. ScottishPower recommends that programmes that seek to address one or more of the factors which can cause customers to be vulnerable, at risk of, or in, fuel poverty should qualify as social spend initiatives including such measures as debt relief initiatives and income maximisation programmes (excluding any statutory requirements like CERT targets).

It will be important that the definition of qualifying programmes does not create competitive distortions or reward counter-productive behaviours, but within that constraint, it will be helpful for the definitions to be as broad as possible. If an overly prescriptive definition of potential qualifying individuals and social programmes is implemented innovation could be stifled and lead to suppliers delivering a limited range of programmes which would only assist a particular group of vulnerable customers.

We do not consider that bringing PPM differentials down to cost reflective levels should score against the social spend. This would reward suppliers who have set differentials in the past significantly above the cost reflective level, and penalise those who have been more responsible.

b) The delivery context of social programmes

The context in which social programmes will be delivered also needs to be considered to ensure a robust framework is developed.

(i) Suppliers will aim to target vulnerable/fuel poor customers

The lack of robust data available to suppliers and Government means that we are not in a position to accurately identify and target vulnerable/fuel poor. Work on data sharing is under way and it is hoped that this will lead to an improvement in targeting. However, some imperfection is inevitable. It will be important that the

cost of any programme which is aimed at fuel poor or vulnerable people is included in full, even if a percentage of the benefit may be accruing to people who are not in these categories.

In addition suppliers' efforts to help vulnerable/fuel poor customers do not necessarily result in them exclusively helping their own customers. The framework should allow for suppliers to help vulnerable/fuel poor individuals regardless of whether they are 'their' customers or not. A good example of this is the ScottishPower Energy People Trust, which is generally regarded as an example of good practice, which funds projects that help individuals regardless they are ScottishPower's customers or not. Although not directly relevant to these programmes, a similar breadth of approach in CERT – where measures count regardless of who supplies the gas or electricity – has been beneficial and has allowed concepts such as warm zones to operate.

(ii) Adding value to CERT Programmes

Suppliers will be delivering the social programmes alongside statutory Energy Efficiency programmes. While the Energy Efficiency measures delivered under statutory programmes should not be considered as spend towards social initiatives, spend should qualify where (a) energy efficiency programmes delivered independently of CERT are undertaken or (b) additional services used to address the remaining factors which cause customers to be vulnerable/fuel poor, the cost of fuel and the income of the household, are delivered alongside statutory programmes.

(iii) Industry wide programmes

Given the challenge of building up the programmes to meet the agreed expenditure targets, and doing so efficiently and with maximum impact on fuel poverty, it is highly unlikely that suppliers will wish in future to devote time or other resources to programmes outside the envelope of the targets. Accordingly, while suppliers have previously worked together to deliver industry wide programmes of assistance to the vulnerable/fuel poor, such as the Home Heat Helpline and Winter Mailing Initiative, it is highly likely that the continuation of these programmes will depend on their costs counting against the expenditure targets agreed following the budget.

Unfortunately, the pilot has shown that the joint winter initiative is not cost effective in the generation of leads for CERT. Accordingly, its repetition this winter is likely to depend on whether it will score against the social spending commitment. However, this initiative was a good example of suppliers and Eaga working together and it provided valuable insights into the potential benefit of data sharing. If it was agreed that any future initiative of this kind would qualify to be funded under the agreed increased social spend, we believe it would be worthwhile for this coming winter. Not only would it allow us to pilot the targeting of a wider group of vulnerable customers, it would also enable suppliers to test offering a greater range of vulnerable/fuel poverty related support measures than was possible with the previous EEC/CERT focus.

(iv) All costs of Social Programmes should be included

Suppliers have agreed to deliver new, or broader programmes, of support for vulnerable/fuel poor customers. Within this agreement the total costs associated with delivering broader or new social programmes, including reasonable administration costs such as IT, mailing etc, should qualify towards the social spend target. These administrative costs can be a material part of the total costs of delivering the programmes. For the avoidance of doubt, it would be helpful if Ofgem, in discussion with suppliers set out the costs which would be applicable.

(v) Flexible timeframes for spend targets

Finally, with the late start to the first year of social initiatives, the framework is set to be finalised in June, it is recommended that the programme will have a degree of temporal flexibility to allow suppliers the opportunity to meet spend targets effectively i.e. by delivering programmes that effectively address and meet the needs of those vulnerable or fuel poor customers, rather than having the sole target of meeting a spend target. This will be especially important in the first year, which has both the sharpest proposed rise in spending and the shortest time to develop the programmes.

In particular, where money is paid into independent trusts or hardship funds, it should score at that point (rather than when the trust or fund disburses the sums in question) provided that the trust or fund can demonstrate an active and appropriately scaled programme of activity that will spend the money on a reasonable timescale.

Similarly, where the supplier programmes are progressing rapidly, but fail to meet the spend target in a particular year, it is reasonable to allow an element of carry forward – so long as the target for the three years

is met – rather than require inefficient spending to meet the year end date. This flexibility has been available under the CERT programme and has proved to be effective in maximising overall efficiency.

2. Changes required to the reporting framework to capture and reflect the work done by energy suppliers in this area

Outlined below are ScottishPower's high level recommendations regarding the principles that should govern the reporting framework. We then discuss potential changes to the current reporting framework used by Ofgem

a) The high level reporting principles

- (i) Transparent** – This feature is already achieved through the current reporting framework and will be essential as spend increases in this area
- (ii) Consistent** - As far as possible the reporting framework should remain consistent to allow useful comparisons between different supplier programmes to be drawn, and for year on year analysis to be possible
- (iii) Applicable** - The reporting should provide a useful resource for key stakeholders, to help them clearly identify the help available for customers, and for suppliers, to enable them to understand and identify best practice.
- (iv) Straightforward** – The reporting process should remain as simple as possible, so as not to be overly burdensome. A yearly reporting frequency will be sufficient to ensure that the process is monitored regularly but does not become difficult for suppliers to manage.
- (v) What should be measured** – While it is acknowledged the key target is the amount spent, in order to assess the effectiveness of programmes and identify best practice, consideration should be given to including other metrics i.e. the number of customers helped through each programme; the value of benefits claimed through income maximisation programmes, further funds leveraged as a result etc.

b) Recommendations for the current reporting framework

(i) Ongoing Social Tariffs, Other Social and Rebate programmes

As previously stated, it is recommended that the cost of social tariff programmes qualify in full, so long as a reasonable effort has been made to target vulnerable/fuel poor customers, recognising that targeting cannot be perfect. In addition it is recommended, in line with the reporting on the Stay Warm product last year, that all the costs required to deliver a tariff and/or rebate programme are taken into account such as IT development and mailing costs etc.

Regarding the specific assumptions used for social tariff analysis provided in the Annex we have the following comments/points for clarification:

- Under 1.1 - We are keen to understand why, and the value added by Ofgem carrying out the same calculation as suppliers to estimate the saving made by customers who move to the social tariff
- Under 1.6 - It is unclear whether it is proposed that internet tariffs are being included in any comparison. As the nature of the most of the competitive internet tariffs are transitory, it may be difficult to use these meaningfully. Please could you confirm that, if internet tariffs that are used within comparisons for 'best price offers', the ones used are Suppliers' standard Internet offerings that are constantly available.

(ii) PPM Price Equalisation

We recognise the work that Ofgem are currently undertaking with regards to PPM pricing within the market and this will be undertaken as a separate initiative, in addition to spend under social programmes. Given the disparity in pricing differentials across suppliers, it would be inappropriate for the cost of reducing differentials to cost reflective levels to count as a contribution towards social initiative spend.

(iii) Trust/Hardship Funds

As previously stated above to ensure fuel poverty spend targets are used effectively, the report should take into account the sums transferred to Trusts/Hardship funds rather than the actual spend undertaken by them, so long as the Trust has credible plans to deliver the programme within a reasonable time frame.

(iv) Other Initiatives/Programmes

It is recommended that the framework is expanded under other initiatives and Programmes to enable the following activity to be captured:

a) Improving attempts to help vulnerable/fuel poor customers

It is recommended the framework is expanded to include a reasonable allowance for research or development tools companies have undertaken and/or purchased to help them effectively identify and target schemes to their most vulnerable customers.

This change is recommended in light of the increase spend required on social programmes and all stakeholders increasing their efforts to ensure the most vulnerable customers are targeted.

b) Adding Value to CERT and other Energy Efficiency programmes

To reflect the broad definition of social programmes that we are recommending to be taken, it is further recommended that a section is provided to take account of any value added services provided by suppliers to address the factors of fuel poverty above those required by the statutory programmes i.e. the cost of fuel and the maximising the income of the household.

It is also recommended that it is accepted that all of the customers that receive value added help through CERT programmes or through any additional voluntary energy efficiency programmes are considered vulnerable customers.

c) Debt Management Initiatives

It is recommended that the Debt Management Initiatives section is broadened and used to identify 'Income Maximisation Programmes'. Experience suggests that for every £1 spent on benefit entitlement reviews, some £20 in additional income is recovered for householders. Allowing this work within the scope of the programmes would allow suppliers to engage in partnerships which will provide money advice to prevent debt occurring in the first place and/or helping individuals who already find themselves in debt.

d) Field Based Teams

Part of supporting vulnerable customers could include the deployment of a multi skilled field based team who can deliver a holistic service for vulnerable individuals who find it difficult to interact with call centres. The spend required to deliver such teams should be taken into account.

e) Pilot Projects and innovation

As the spend on social initiatives increases, ScottishPower is keen to explore a number of programmes which could help alleviate the causes of fuel poverty for vulnerable customers. It is recommended that a section is included to take account of pilot projects which may or may not be rolled out following assessment of the programme.

(v) Delivering the requirements of the Government's Action programme

It is recommended that the framework is extended to include a new section to take account of any actions required by suppliers to deliver the Action programmed outlined by the Government i.e. data sharing, the Winter Mailing, Home Heat Helpline etc. This will provide transparency for all suppliers to ensure that compliance is achieved on specific areas and the costs to deliver this activity are taken into account.

If you have any questions or would like to discuss any elements of our response please contact Ruth Semple on 0141 568 4727.

Yours sincerely,

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