

## **SUPPLIERS' SOCIAL INITIATIVES; RESPONSE TO OFGEM LETTER OF 21 APRIL FROM P. LEHMANN**

I am submitting this evidence on a personal basis. I was until 31 March 2008 Chair of the Fuel Poverty Advisory Group and I am a non-executive Director of Gaz de France. This note represents my personal views. It raises just a few points and is not intended to be comprehensive.

Suppliers should be allowed to include energy efficiency projects – additional of course to CERT.

Benefit Entitlement Checks should be included. This should probably be on the basis of a standard cost, - or cost plus some uplift, on the grounds that they are very effective. However it should not be on the basis of the additional income for customers, as there is clearly a significant Government contribution (payment of the actual benefit) in addition to the supplier cost. BECs should only be allowed if certain criteria are fulfilled – especially reasonable follow up to maximize the chances of benefits being claimed.

It is tricky to decide what elements of “social tariffs” should count towards the £100/150m:

A tariff should only count as a social tariff if it is the suppliers' lowest tariff on offer.

Ideally there should be some recognition of companies with low tariffs generally for low income customers (on the basis of Ofgem's method of analysis of this last year) and conversely for companies with high prices. It is recognized that this might now be difficult.

However it is really important, even though it is difficult, that there should be some allowance for low differentials between pp/sc on the one hand and dd/online on the other and certainly no benefit for companies with particularly high differentials. For example if a company has a very high pp-dd differential and its social tariff gives dd prices to pp customers, it should not get credit for its full differential between pp and dd. Suppose that there are 2 companies with identical dd prices and one has a much higher prepayment price than the other, and they both provide dd prices to pp customers under their social tariffs. If the high price pp supplier received more “credits” towards his share of the £150m than the low priced pp supplier, this would not be reasonable, would be bad for competition and would provide incentives to perverse behaviour – for example a company could get all the credits it needs just by widening its pp-dd differential.

One solution here is to give a credit only up to a maximum of £85 for a dd tariff offered to a pp customer (£85 being Ofgem's estimate of the cost differential). So any supplier with a differential of more than £85 would just get the £85 credit. There would be a similar arrangement for standard credit customers. This is not a perfect solution but might represent a pragmatic way forward.