

Monitoring suppliers' social initiatives - proposed reporting framework

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Target audience: Gas and electricity suppliers and potential new entrants, consumer groups in particular those representing pensioners, the disabled, the chronically sick or people on low incomes, environmental bodies, government departments and all interested parties.

Overview:

In the 2008 Budget the Chancellor announced an increase in suppliers' collective expenditure on their social programmes of £225m over the period 2008-11.

Government has requested that Ofgem lead a process to set the parameters for what can be included by suppliers as part of this spend on social initiatives and the associated reporting arrangements.

This document seeks views on Ofgem's proposed monitoring framework.

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Context

In the 2008 Budget the Chancellor announced an increase in suppliers' collective expenditure on their social programmes of £225m over the next three years.

Government has requested that Ofgem lead a process to set the parameters for what can be included by suppliers as part of this spend on social initiatives and the associated reporting arrangements.

Associated Documents

- Letter to stakeholders on social monitoring
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=218&refer=SUSTAINABILITY/SOCACTION/SUPPLIERS/CSR>
- Review of suppliers' voluntary initiatives to help vulnerable customers - 203/07
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=213&refer=Sustainability/SocAction/Suppliers/CSR>
- Ofgem's review of Suppliers' voluntary initiatives update (October update) - 235/07
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=217&refer=Sustainability/SocAction/Suppliers/CSR>
- Domestic Retail Market Report - July 2007
<http://www.ofgem.gov.uk/Markets/RetMkts/Compet/Documents1/DRMR%20March%202007doc%20v9%20-%20FINAL.pdf>
- Social Action Strategy - Update (June 2007) Ref 162/07
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=43&refer=Sustainability/SocAction>

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Summary

With increasing energy prices, the number of households in fuel poverty has been rising and now stands at around 4 million. The Government's target to eradicate fuel poverty among vulnerable households by 2010 looks increasingly challenging.

While the main responsibility for tackling fuel poverty¹ lies with Government, energy suppliers play a part in helping fuel poor and vulnerable consumers² through their social programmes, as well as through statutory CERT (Carbon Emission Reduction Target) obligations. In the 2008 Budget the Chancellor announced an increase in suppliers' collective expenditure on their social programmes to at least £150m per year in 2011. Government has secured an agreement with suppliers building up to deliver this commitment over the 2008-2011 period.

Government has asked Ofgem to lead a process to set the parameters for what can be included by suppliers as part of this spend on social initiatives and the associated reporting arrangements. We have reported previously on suppliers' voluntary social initiatives using a reporting framework which aims to capture and reflect the diverse range of initiatives undertaken by energy suppliers in this area. The purpose of the reporting framework was to shine a light on suppliers' initiatives targeted at the fuel poor and those vulnerable to fuel poverty to assist customers and their advisors in understanding the range of help available.

In light of the recent agreement that Government has secured with suppliers to increase their social spend, we consider in this document whether our previous approach remains appropriate and have proposed some changes to our monitoring framework.

On the whole we are proposing to maintain our current approach to monitoring suppliers' spend on their social programmes.

We intend to continue to include the costs of suppliers' social tariffs, rebates, trust funds and partnership initiatives towards their social spend targets. We have proposed some changes to how we calculate suppliers' spend on their social tariffs to improve the accuracy of this analysis.

We propose further changes to the monitoring framework to explicitly include spend on energy efficiency measures where they are clearly additional to suppliers' existing statutory obligations. We also propose to include suppliers' costs for undertaking Benefit entitlement checks.

1 A fuel poor household is defined as a household spending more than 10% of their annual income to adequately heat their home.

2 A vulnerable household is one in which the householder or spouse is elderly, has a child under 16 years or has some form of sickness or disability

On suppliers administrative and delivery costs, we propose to reject the inclusion of all administration costs associated with the delivery of social programmes. We do however propose to include the recovery of those administration costs which relate to specific projects involving joint working across industry and where suppliers can demonstrate that the costs have been efficiently incurred, that it is a good use of their funds and that the funds have been effectively targeted at fuel poor customers or those at risk of fuel poverty.

We do not intend to include suppliers' costs associated with prepayment tariff equalisation policies which apply to all customers, given that this blanket approach is poorly targeted at fuel poor customers.

It is important to note that the issue of payment differentials will be addressed more fully as part of the energy supply markets probe. The probe will report its initial findings in September and will consider whether any further action is required.

We aim to finalise the guidelines based on these proposals and consultation by the end of June 2008. We intend to review this at the end of 2008 for 2009-2011, in particular to take account of the outcome of Ofgem's energy supply markets probe.

The probe is likely to give us a much stronger sense of how competition is working in this part of the market and hence the impact different approaches could have on competition in this part of the market. We are also aware that the current discussions between suppliers and Government on data sharing could have significant impacts on suppliers' social programmes.

We will confirm any changes in December 2008. In doing so we will be mindful of the importance of certainty and stability in the guidelines to enable suppliers to plan coherent social programmes to deliver support over the longer term and to meet their spend targets.

It should be noted that if we cannot secure agreement to the framework with suppliers, or if any supplier does not meet their commitments, we will flag the matter to Department for Business, Enterprise and Regulatory Reform (BERR) who will review the voluntary basis of these arrangements going forward.

We welcome your views on the issues raised within this paper **by Thursday 12 June 2008.**

1. Introduction

1.1. With energy prices rising, the number of people in fuel poverty has more than doubled since 2004. This represents a major challenge given Government's 2010 statutory target for the elimination of fuel poverty among vulnerable households.

1.2. Fuel poverty is primarily caused by high energy prices, low incomes and poor housing conditions and is part of the wider problem of poverty and social exclusion. Given the wider social causes of fuel poverty there will inevitably be a limit to the role that the industry and the regulator can play in tackling it. The main focus should be on raising incomes and improving housing, which are jobs for Government.

1.3. The Fuel Poverty Advisory Group (FPAG) estimate that a programme of measures of about £1 billion per annum is required between 2008-16 and would need to be maintained over the next ten years for Government to meet its statutory targets³. This is higher than the current levels of spend on Warm Front, Carbon Emissions Reduction Target (CERT) and Decent Homes. We have previously stressed the need for these schemes to properly interact. The need for help to be targeted where it is most needed was a key theme of our recent Energy Summit on Fuel Poverty⁴.

1.4. It remains Ofgem's priority to ensure that the energy market operates competitively as this is the most effective means of securing the lowest prices for all energy consumers. Our energy supply markets probe, announced on 21 February, will analyse whether the retail market is operating effectively and meeting the interests of all consumers. It will identify and report initial findings in September 2008.

1.5. Energy suppliers play an important role in helping tackle fuel poverty through their social programmes and through their statutory obligations such as CERT. Each of the big six suppliers now offer some form of social tariff or rebate as well a wide range of other support for vulnerable and fuel poor customers.

1.6. We developed our previous reporting framework on suppliers' voluntary social initiatives to help vulnerable customers in June 2007. The purpose of this framework was to shine a light on suppliers' social programmes. We published a review of suppliers' social initiatives in August 2007⁵ which focussed on suppliers' social tariffs, rebates and trust fund arrangements. It is recognised that these initiatives are only one element of the wide range of initiatives and help that suppliers provide.

³ Fuel Poverty Advisory Group, Sixth Annual Report, 2007. <http://www.berr.gov.uk/files/file45365.pdf>

⁴ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=108&refer=Sustainability/SocAction/Publications>

⁵ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=213&refer=Sustainability/SocAction/Suppliers/CSR>

1.7. We published a subsequent update to this review October 2007⁶. This updated analysis helped to inform Government's decision on whether to include in the Energy Bill powers enabling the Secretary of State to require companies to have a proportionate programme of support for their most vulnerable customers. This update looked at the broader array of initiatives in which suppliers' are involved and made some assessment of future spend.

1.8. Since then the Chancellor announced, in the 2008 Budget, an increase in suppliers' collective expenditure on their social programmes of £225m over the next three years. Government has secured an agreement with suppliers to build up to deliver this commitment over the 2008-2011 period.

1.9. The key elements of the agreement with suppliers include:

- an increase in collective social spend from a baseline of around £50m now to £150m in 2010-11, to be split across suppliers based on market share;
- the increase will be delivered incrementally over the coming three year period so that suppliers' collective spend in 2008-09 is £100m; £125m in 2009-10 and £150m in 2010-11. This is an increase of around £225m over the next three years compared to the baseline.
- suppliers' initiatives must be targeted at the fuel poor or those vulnerable to fuel poverty;
- suppliers' contribution need not be in the form of social tariffs or rebates but can also include energy efficiency measures and other programmes. Government actively encourages suppliers to innovate and compete in this area; and
- the £225m is additional spend - should existing supplier initiatives be included in the revised framework (where they were not counted previously) this would increase the baseline.

1.10. Ofgem has agreed to lead a process to set the parameters for what can be included by suppliers as part of their spend on social initiatives and the associated reporting arrangements.

1.11. Should suppliers not agree to or comply with the framework, Ofgem has agreed to flag this with BERR who will review the voluntary basis of this arrangement going forward.

1.12. In light of the recent agreement that Government has secured with suppliers to increase their social spend, we are considering whether our previous approach remains appropriate or whether changes are required to our monitoring framework. On 21 April 2008, we published an open letter seeking views on the reporting

⁶ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=217&refer=Sustainability/SocAction/Suppliers/CSR>

framework used in our August and October 2007 publications. Responses to this open letter can be viewed on our website: www.ofgem.gov.uk

1.13. Responses received to our open letter have been used to inform the design of the proposed monitoring framework. We are seeking views on the proposed changes to the monitoring framework and have set out a number of questions for response in the following chapters of this document.

1.14. Responses to this consultation are due **by Thursday 12 June 2008**. We will publish the final reporting framework by the end of June 2008.

2. Social tariffs

Chapter Summary

This chapter sets out the issues around defining the qualifying criteria for social tariffs, our previous approach and proposed way forward for including suppliers' contribution from their social tariffs towards their social spend targets.

Question box

- ➔ **Question 1: What should the qualifying criteria be for a social tariff? Do you agree with our proposed approach?**
- ➔ **Question 2: Do you agree with the changes we have proposed to calculating suppliers' contributions from their social tariffs?**
- ➔ **Question 3: What are the potential implications of assessing a supplier's social tariff against the lowest available for that payment method?**

Definition of a social tariff

2.1. Under our previous reporting framework, we included social tariffs towards suppliers' social spend contribution. We specified that for a tariff to qualify as a "social tariff" it must be at least as good as the suppliers' standard direct debit tariff.

2.2. All suppliers have taken different approaches to the social tariffs they offer in terms of the level of discount, who is eligible and how the schemes are promoted. The main social tariffs offered by suppliers are available to eligible customers regardless of payment method and take the form of either:

- a set discount off eligible customers' tariffs;
- a tariff which is equivalent to a suppliers Direct Debt tariff;
- a tariff which is equivalent to a suppliers current best tariff (for example its online tariff); or
- a fixed bill tariff for one year regardless of consumption in that year⁷.

2.3. There is a clear demand from stakeholders and lobby groups to focus on social tariffs as a way to provide support to fuel poor and vulnerable customers. There has also been considerable debate around what should qualify as a "social tariff". This

⁷ This may not necessarily be as good as a supplier's direct debit tariff as we are unable to compare these types of tariffs fully, for example, E.ON's Staywarm tariff.

was a key theme raised at our recent Energy Summit on Fuel Poverty⁸ where front line agencies, such as Warm Zones who are well placed to identify those in fuel poverty, said they would be much more confident about referring consumers to their supplier for tariff advice if it was clear that the social tariff would be the best option for the customer.

2.4. A number of respondents to our open letter suggested that a tariff should only qualify as a social tariff where it is that supplier's lowest tariff on offer; typically these are suppliers' online tariffs.

2.5. There is a view that a social tariff should also be the lowest available for that payment method regardless of which supplier the customer is with. This would ensure that fuel poor and vulnerable customers would always be better off on their suppliers' social tariff and avoid instances where the customer would benefit more from switching to the same payment method but with a different supplier. This seems an attractive principle but we recognise that there may be practical issues if suppliers' social tariffs were linked to other suppliers' prices in some way.

2.6. In our reporting on suppliers' social initiatives to date we have always expressed concern about such standardised approaches to social tariffs and have highlighted the benefits of suppliers' diverse approaches. Government, in securing its agreement with suppliers to increase their social spend, has also advised it is looking for suppliers to innovate and compete in this area. By prescribing more strict qualifying criteria for social tariffs, we may reduce incentives on suppliers to innovate in this area.

2.7. In many cases suppliers' online tariffs can fluctuate and may only be available for short periods. As such there may be practical issues with using these as the benchmark.

2.8. Moreover, focusing on online tariffs as the benchmark rather than direct debit could result in suppliers providing a significant level of help and support to a much smaller number of customers in order to meet their spend targets. There is an important question here as to whether it is better to provide a little help to many or more help to a few. In our previous evaluations we have taken the view that this is not for Ofgem to dictate. However, following the conclusion of the probe, which will also look at the discounts for online tariffs, we may wish to return to this issue.

2.9. We do however acknowledge that it is important that consumers and consumer advisers can be clear how social tariffs compare with other tariffs available. We welcome suppliers' commitments as a result of Ofgem's Energy Summit on Fuel

⁸ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=108&refer=Sustainability/SocAction/Publications>

Poverty to make the details and eligibility of their social tariffs and social programmes clearer to advice and consumer agencies.

Proposed way forward

2.10. For the first year of the agreement (covering the period 2008-09) we propose to maintain our current approach where a social tariff would be included where it is at least as good as the suppliers' standard direct debit tariff.

2.11. We consider that, at this stage, it would not be appropriate to extend this to online tariffs given the additional savings (from reduced costs to serve) to suppliers from managing these accounts online. There are also relatively small numbers of customers on such tariffs which may be time limited or otherwise restricted in some way.

2.12. We recognise that there is an argument for assessing a supplier's social tariff against the lowest available for that payment method regardless of which supplier the customer is with. However, we also recognise that there may be significant implications and practical issues associated with taking this approach. We seek your views on the implications and benefits of this approach.

2.13. We see Ofgem's probe as the primary route for addressing any issues with payment differentials and if our findings have implications for our approach to this issue we will update the framework in December 2008.

2.14. Should the findings of the probe result in changes to payment differentials in the energy supply market, we may want to revisit the definition of a social tariff to apply tighter criteria. There are also linkages here with the data sharing model being explored between suppliers and Department for Work and Pensions (DWP). If either of these leads to changes in what is counted as a social tariff, we will publish a further update to the framework in December 2008 to provide clarity to the suppliers on the minimum criteria for social tariffs going forwards for the 2009-11 period.

2.15. While we are not proposing at this stage to require that social tariffs are better than the best market rate for that payment method, we will, as before, publish information comparing social tariffs with other rates to provide additional transparency. This will potentially help frontline agencies and others understand where a customer may benefit more from switching supplier or payment method rather than being on their existing supplier's social tariff.

2.16. We welcome views from respondents on the issue of qualifying criteria for social tariffs and our proposed approach as outlined above.

Calculating suppliers' contributions from social tariffs

Previous approach to social tariffs

2.17. When considering the contribution made by suppliers' social tariffs, we have previously focussed on the savings made by those customers from being on the social tariff (or, equivalently, the revenue lost by suppliers).

2.18. Under our previous framework, to determine these savings we calculated the difference between a weighted average annual bill based on each supplier's standard credit and prepayment tariffs and the social tariff.

2.19. A number of assumptions were included in these calculations, which are outlined below:

- that no customers paying by Direct Debit were on a social tariff. This is likely to be correct for British Gas' Essentials social tariff given there are no savings over direct debit, but may slightly overstate the savings for other suppliers;
- that all social tariff customers were previously paying by prepayment meter or standard credit, split as in the population overall; and
- that a customer's annual consumption for electricity was 3,300kWh and for gas was 20,500kWh.

2.20. In our previous reports we highlighted what the average bill would be for a customer on the social tariff, the total number of customers on the social tariff and the average and total saving against the average tariff. By multiplying the average saving by the number of customers, we provided an estimate of the total saving to these social tariff customers in terms of reduced fuel bills (which is also likely to be the cost to suppliers in terms of lost revenue). Alongside our analysis, we also published each supplier's estimated costs for their social tariff, which in some cases may also have included marketing and other costs.

2.21. Using this methodology, we were unable to compare E.ON's (previously Powergen) Staywarm social tariff on the same basis as the other suppliers' social tariffs. This is because the Staywarm tariff offers a fixed annual price regardless of consumption, where the price is dependent upon the size and location of the house and number of occupants. The tariff is targeted toward elderly customers and provides the benefit of ensuring they can heat their homes to an adequate level without incurring higher bills. For those customers on certain benefits or with certain medical needs, the bill is fixed at the low usage rate regardless of that customer's actual consumption. It is these customers we consider to be on the Staywarm social tariff.

Issues

2.22. A couple of respondents to our open letter raised some concerns regarding our previous analysis of suppliers' social tariffs. One supplier respondent advised that

customers on their social tariff typically have higher consumption levels than we have assumed and therefore our analysis underestimates the cost to suppliers' of providing social tariffs.

2.23. A further supplier respondent questioned the value of Ofgem carrying out these calculations and suggested that we use each supplier's own estimates of the savings made by customers who move to the social tariff.

Proposed approach for 2008-09

2.24. As set out above, for the 2008-09 period, we propose to maintain our current approach where a social tariff is included where it is at least as good as the suppliers' standard direct debit tariff.

2.25. We propose to build upon our existing social tariffs analysis by using actual data from suppliers on average annual consumption levels for customers on their social tariffs along with the actual split across different payment methods (rather than using the assumptions outlined above). This will improve the accuracy of our analysis. We also intend to collect more information from E.ON on their Staywarm tariff to ensure that their contribution is monitored on a comparable basis to other suppliers.

2.26. As in our previous reports, we will include information on suppliers' estimates of the cost of providing their social tariff as well as a comparison of each supplier's social tariff with other rates in the market.

2.27. We welcome views from respondents on our proposed approach to calculating suppliers' contributions from their social tariffs.

3. Rebates and other discounts

Chapter Summary

This chapter sets out the issues around including rebates towards suppliers' social spend targets, our previous approach and proposed way forward. It also looks at the issue of suppliers' prepayment tariff equalisation policies.

Question box

- **Question 4: Do you agree with our proposed approach to including rebates as part of suppliers' social spend?**
- **Question 5: Do you agree with our proposed approach to including PPM equalisation as part of suppliers' social spend only where it is targeted at fuel poor customers?**

Including rebates towards suppliers' social spend targets

3.1. As well as social tariffs, suppliers also offer a range of other one-off rebates and discounts to fuel poor and vulnerable customers. A rebate is generally offered once a year to specific customers, or a specific group of customers.

3.2. Under our previous monitoring framework, we included rebates towards suppliers' social spend. We have considered whether it remains appropriate to include spend on rebates going forwards or whether suppliers should focus instead on social tariffs. There are a number of benefits to each of these approaches.

Focus on social tariffs

3.3. We consider that social tariffs are typically, but not necessarily, better targeted at fuel poor customers than some rebates.

3.4. As noted in Chapter 2, stakeholders have advocated for suppliers to continue to focus on social tariffs and to ensure that these social tariffs are the best available which third party agencies could then be confident in recommending. Some stakeholders also recognised the value of suppliers also providing rebates and the benefits of a diverse approach.

3.5. Finally, rebates may deter customers from switching, particularly if it makes it more difficult for the customer to assess which option is more beneficial and as they are typically applied to customers' accounts annually.

Continue to include social tariffs and rebates

3.6. A significant benefit to continuing to include rebates is that many are focussed at winter time when fuel poor and vulnerable customers find it most difficult to afford their energy bills. Most rebates are available to specific groups of customers (for example, those in receipt of benefits or on suppliers' Priority Services Register) which can provide a reasonable proxy for fuel poverty.

3.7. Rebates can be easier for suppliers to administer and can be delivered in a relatively short time period, providing valuable flexibility given suppliers now have a specific target spend level to reach for social programmes. This may be particularly important for suppliers in this first year of the agreement (2008-09) where they may find it more difficult to meet their targets given the large increase in spend required and the limited time to achieve it.

3.8. Government advised suppliers they could reasonably expect that the categories of spend included in the last Ofgem report would be counted going forwards. There is therefore a degree of expectation from suppliers that rebates would be included towards their social spend targets.

3.9. As noted above, in our reporting on suppliers' social initiatives to date we have always highlighted the benefits of suppliers' diverse approaches and Government has advised it is looking for suppliers to innovate and compete in this area. Focusing on social tariffs and not including rebates could reduce incentives on suppliers to innovate in this area.

Proposed way forward

3.10. Given that we have not seen any evidence of rebates being used as a way of influencing customers' switching decisions, for the 2008-09 period we propose to maintain our previous approach and include rebates towards suppliers' social spend targets. In doing so, we expect suppliers to target any rebate on customers who are fuel poor or vulnerable to fuel poverty and not structure their rebates in a way that could distort competition.

3.11. As with our approach to suppliers' contributions from their social tariffs, we propose to revisit this issue once the initial findings from the energy supply markets probe are published in September. Should we decide that changes are needed we will publish an update to the framework in December 2008. It is also important to note that the definition of a social tariff only mattered under our previous approach in terms of providing transparency as other discounts were included in the assessment of the schemes overall value. If we were to not count rebates from 2009 onwards then the qualifying criteria for defining a social tariff become much more important.

Calculating suppliers' contributions from rebates

3.12. Under our previous monitoring framework, in calculating the savings made by customers receiving a rebate, we multiplied the total number of customers in receipt of the rebate by the average benefit received by the customer. We did not take into account any administration or delivery costs.

3.13. We do not propose to change the methodology for calculating suppliers' contributions from their rebates.

Proposed approach to suppliers' prepayment tariff equalisation policies

3.14. In our previous social monitoring framework, we reported on suppliers' policies to equalise prepayment meter (PPM) tariffs with their direct debit tariffs. We did not, however, include this towards the suppliers' total contribution except where the equalisation was directed solely at fuel poor or vulnerable customers, for example as is the case with British Gas' Essentials Tariff.

3.15. Several of the suppliers' responses to the open letter suggested that where PPM tariffs are equalised for all customers that this should be credited, in full or part, towards their social spend.

3.16. We do not consider this approach to be appropriate given that a blanket approach to PPM equalisation would be relatively poorly targeted at the fuel poor with 25 per cent of all PPM customers likely to be in fuel poverty and higher proportions of fuel poor consumers more likely to be on standard credit tariffs⁹.

3.17. We therefore intend to maintain our previous approach and count PPM equalisation only where it is, via the use of appropriate eligibility criteria, targeted more directly at fuel poor customers.

3.18. This may also go some way to help address the related concerns that under this previous approach a supplier that had not equalised PPM and standard credit tariffs for all customers got a larger 'credit' for their social tariff (where it aligned these tariffs to their direct debit tariff) than other suppliers might. We see Ofgem's energy supply markets probe as the primary route for addressing any issues with payment differentials. If our findings have implications for our approach to this issue we will update the framework in December.

⁹ See Accent survey published as an Appendix to June 2005 Domestic Retail Market Report, Ref 24b/06. <http://www.ofgem.gov.uk/Markets/RetMkts/Compet/Documents1/12882-2406b.pdf>

3.19. We welcome views from respondents on our proposed approach to rebates and prepayment tariff equalisation as outlined above.

4. Trust Funds

Chapter Summary

This chapter sets out our proposed approach to including trust funds towards suppliers' social spend targets.

Question box

→ **Question 6: Do you agree with our proposed approach to including trust funds as part of suppliers' social spend?**

Calculating suppliers' contributions from trust funds

4.1. Trust funds refer to a trust run and funded by a supplier, or funded by the supplier and independently run by a third party. The supplier provides a sum of money that is then spent on helping individual customers or on a number of projects.

4.2. Trust funds generally offer two forms of help:

- Direct assistance to customers in debt;
- Funding of third party projects aimed at customers in fuel poverty or otherwise with severe financial difficulties.

4.3. In developing our previous monitoring framework, there was scepticism from some stakeholders that many of the trust funds are simply a different way of writing off debt (and therefore recycling funds back into the company). However, in some cases help is provided for debts other than energy and the fund still provides a valuable source of help to those it assists.

4.4. One supplier respondent to our open letter suggested that our report should take into account the sums transferred into Trusts/Hardship funds rather than the actual spend undertaken by them, provided that the Trust has credible plans to deliver the programme within a reasonable time frame.

4.5. Under our previous framework, we presented information on suppliers trust funds which included the total donation made into the fund by the supplier, the total amount spent by the Trust and the number of customers provided with support through the fund. However, in calculating suppliers' contribution we focussed on the trust fund spend, as a steadier flow, rather than sums suppliers' had committed to the fund.

4.6. We intend to include trust funds towards the suppliers' target using the same methodology as our previous reports. We welcome respondents' views on this proposed approach.

5. Other categories of spend

Chapter Summary

This chapter sets out our proposed approach to including other categories of spend towards suppliers' social spend targets. In particular our proposed approach towards including energy efficiency measures, debt prevention initiatives and operational / administration costs.

Question box

- **Question 7: Do you agree with our proposed approach to including other categories of spend towards suppliers' social spend targets? In particular our proposed approach to energy efficiency initiatives, debt prevention initiatives and operational costs?**
- **Question 8: How do we ensure robust and true additionality in suppliers' calculations of their energy efficiency spend above their statutory obligations?**
- **Question 9: Do you agree with our approach to include efficient administration costs where they relate to specific projects involving joint working across industry?**

Previous approach to other categories of spend

5.1. In our previous reporting on suppliers' voluntary social initiatives we recognised the benefit of suppliers' diverse approaches to helping vulnerable and fuel poor customers and aimed to reflect this diversity in our reporting. In particular, as part of our October 2007 update on suppliers' voluntary social initiatives, we sought to take account of the wide range of other initiatives and support suppliers offer their vulnerable customers, which do not fall into the social tariff, rebate and trust fund categories which were the focus of the August review.

5.2. Our October update included suppliers' spend on their partnerships with third party organisations and other initiatives to help vulnerable and fuel poor customers. We considered that including these other initiatives and partnership work in the spend calculations provided consumers, Government and stakeholders with a more complete picture of the help available and suppliers' efforts in this area. Given the real difficulties identifying and targeting fuel poor customers, we considered the range and variety of initiatives to be a strength of the voluntary approach.

5.3. Our August review also included information on suppliers' activities in the following areas, but did not include suppliers' spend on these types of initiatives:

- Other discount tariffs/ price support mechanisms;
- Prepayment meter price equalisation policies; and

- Benefit entitlement checks.

5.4. Several respondents to our open letter expressed views on what areas and initiatives they considered should be included towards suppliers' social spend targets.

5.5. All suppliers, in their responses to the open letter, suggested that the framework going forward should include the full operational, administrative and delivery costs for all their social initiatives.

5.6. There was strong support from respondents to include spend on energy efficiency related initiatives (such as Warm Zones, additional CERT measures and Warm Front grant top-ups) in the revised framework going forwards. In addition, some respondents suggested that funding from suppliers for Benefit entitlement checks and debt advice should also be included and counted towards their target spend.

5.7. However, two respondents suggested that only funding towards suppliers' social tariffs and rebates should be included.

Proposed approach to other categories of spend

5.8. We remain of the view that it is important to take account of, and recognise, the wide range of other initiatives and support suppliers offer their fuel poor and vulnerable customers, which do not fall into the social tariff, rebate and trust fund categories. In many cases partnership programmes, for example, can be highly effective ways of reaching the otherwise 'hard to reach' and hence play a very valuable role in tackling fuel poverty.

5.9. Below we have set out our proposed approach to the different categories of spend mentioned above.

Partnerships and other initiatives

5.10. Consistent with our previous approach, where these types of partnership working and other initiatives are targeted at assistance or advice to the fuel poor, and those vulnerable to fuel poverty, we would expect these to contribute towards suppliers' social spend targets.

Benefit entitlement checks (BECs)

5.11. Where suppliers undertake BECs for customers who are fuel poor or vulnerable to fuel poverty, we propose that the efficient costs of providing them (but not the value of the benefits gained by the customer) should contribute towards suppliers' social spend targets. This recognises the very significant impact BECs can have on customers' income levels.

Energy efficiency initiatives

5.12. Under our previous framework, we did not include any initiatives which suppliers are obliged to undertake, for example initiatives to fulfil their statutory commitments under the Energy Efficiency Commitment (EEC), now CERT. We therefore did not include suppliers' spend on activities such as Heatstreets or Warm Zones. Our review did however highlight the importance of suppliers linking these activities with their voluntary social offerings.

5.13. As noted above, there was strong support from respondents to the open letter to include spend on energy efficiency related initiatives (such as Warm Zones, additional CERT measures and Warm Front grant top-ups) in the revised framework. This is clearly the most sustainable solution to fuel poverty providing a long term solution as well as environmental benefits. We are supportive of area-based approaches (such as Warm Zones) which provide a more targeted and holistic approach to identifying and assisting the fuel poor and those vulnerable to fuel poverty.

5.14. We are therefore supportive, in principle, of including these initiatives towards suppliers' social spend targets provided that suppliers can demonstrate true additionality above their statutory obligations (i.e. where they would not have incurred the costs anyway to meet their EEC/CERT priority group targets) and where they can ensure there is no double-counting of CERT measures. We are therefore seeking views on how suppliers could robustly calculate this area of spend to ensure true additionality above their statutory obligations.

5.15. We would expect suppliers to provide a clear and compelling case on these points should they wish to include such initiatives towards their spend targets.

Debt advice and suppliers' debt prevention strategies

5.16. Two respondents to our open letter suggested including suppliers' costs for their own debt mitigation and prevention initiatives towards their social spend targets. Whilst we recognise that these types of initiatives can play an important part in preventing or addressing fuel poverty, we consider that these activities form part of the suppliers' regulatory obligations. Where they fall outside of this, we consider these types of initiative to be activities all suppliers should undertake as a matter of course as a part of good customer service.

5.17. We therefore do not intend to include suppliers' costs for the debt mitigation and prevention initiatives towards their social spend targets.

5.18. We separately review and report on suppliers' debt prevention and management strategies as part of our work under our Social Action Strategy programme. Our latest best practice review of suppliers' performance in this area was published in January 2008¹⁰.

5.19. We propose, however, to include debt mitigation initiatives where a supplier provides funding for external organisations to provide general debt advice to any vulnerable or fuel poor customer, for example the services provided through the Citizens Advice Bureau (CAB) or the Money Advice Trust. We are seeking your views on the value and implications of this approach.

Operational and administrative costs

5.20. When calculating suppliers' spend under our previous reporting framework, we did not include any administrative or operational costs. We recognise, however, that where a supplier funds a partnership or donates money to a trust fund, we have counted their total contribution which may have included an element of administration and/or delivery costs.

5.21. Five of the six main suppliers, in their responses to the open letter, suggested that the framework going forward should include the full operational, administrative and delivery costs for all their social initiatives. We do not accept this principle.

5.22. There are clearly issues here with establishing whether costs are truly additional costs and in providing an incentive on suppliers to keep administration costs to a minimum, given the need to ensure that customers' money is being well spent.

5.23. We propose to include efficient administration costs where they relate to specific projects involving joint working across industry. For an initiative's administration costs to be included, suppliers must be satisfied and able to demonstrate to Ofgem that it is a good use of their funds, that the costs are efficient and that the measure for which the administrative costs have been incurred has been effectively targeted at fuel poor customers or those at risk of fuel poverty. Furthermore, in terms of the nature of the administrative costs that can be counted, we would expect these to be costs associated with the direct administration and delivery of the measure or initiative and not the policy development costs (such as allocations of staff or management time in developing the measure).

5.24. Some examples of specific initiatives where we would expect to include the administrative costs are:

¹⁰ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=103&refer=Sustainability/SocAction/Publications>

- the proposed pilot where customers, as part of the eaga administered Warm Front programme, are referred to their supplier for tariff advice;
- joint industry mail outs to customers vulnerable to fuel poverty using DWP data;
- the joint industry Home Heat Helpline.

5.25. Should suppliers wish to include administration and delivery costs of such initiatives, suppliers would need to provide a clear and compelling case setting out how these initiatives meet the above requirements.

5.26. We welcome respondents' views on our proposed approach.

6. Calculating suppliers' contribution

Chapter Summary

This chapter sets out our proposed approach to calculating suppliers' contribution to their social spend on a per customer account basis and in setting the current baseline level of expenditure.

Question box

- **Question 10: Do you agree with our proposed approach to calculating suppliers' contribution towards their social spend targets?**
- **Question 11: Do you agree with our proposed approach to setting the baseline spend?**

6.1. As part of our previous monitoring framework, we included analysis to show the total cost to suppliers of their voluntary social initiatives divided by the total number of customer accounts they have. This provided an indication of the relative contribution each supplier was making in terms of the scale of their social programmes.

6.2. The agreement which Government has secured with suppliers is to increase the collective social spend from approximately £50m to a total of £100m in 2008-09, £125m in 2009-10 and £150m in 2010-11. It has been agreed that each suppliers' share of this collective spend will be calculated by reference to their market share, based on customer account numbers using information provided by suppliers to Ofgem for CERT.

6.3. Using the most recent data from February 2008 (covering the 2007 calendar), BERR have calculated a target spend for 2008-09 for each supplier of £2.10 per gas and electricity customer account. BERR have advised that it will re-calculate this figure each year, but on the basis of this data, going forward suppliers targets will be £2.65 for 2009-10 and £3.15 for 2010-11.

6.4. Government have also made it clear to suppliers that it is looking for net increases compared with estimated current levels of expenditure. If as a result of this consultation process, suppliers' baseline level of expenditure is revised upwards to include further relevant expenditure, the target level of spend suppliers will be required to reach will similarly be revised upwards (as will the amount per customer account) to reflect this.

6.5. We intend to continue to publish information on the cost to suppliers of their social programmes on a per account basis, using customer number information provided by suppliers for CERT. This will enable BERR to monitor suppliers' progress towards their spend targets. We have agreed to flag to BERR any issues that arise where we fail to secure agreement to the monitoring framework or where suppliers'

fail to meet their target. BERR will then consider the voluntary nature of this agreement going forwards.

6.6. A couple of supplier respondents to the open letter suggested that the monitoring framework should include some flexibility in how suppliers reach their target spend. For example, such a mechanism would permit suppliers to carry over a shortfall or surplus amount of their spend target from one year to the next. Suppliers have suggested this would be helpful in light of the ramping up of activity under their social programmes in the first year of the agreement to meet their targets and that, until the final monitoring framework is published, there is some uncertainty around what may and may not be counted which may delay activity by suppliers in this area.

6.7. Given our role is to monitor suppliers' contribution and refer any instances where suppliers fail to meet their target to BERR, we do not consider it appropriate to build a flexibility mechanism into the framework. As noted above, we will flag these issues to BERR should they arise and it will be for BERR to respond accordingly. BERR's view is that the annual sums set out in the voluntary agreement should stand, not least to ensure that suppliers do not delay their support for the fuel poor and those vulnerable to fuel poverty.

6.8. In the agreement reached between BERR and suppliers, the approximately £50million baseline was taken as the 2006-07 expenditure with some adjustments for future plans. BERR have made clear that where significant new categories of expenditure are included (or other changes are made to the methodology) then the baseline should be adjusted accordingly. We will therefore use the 2007-08 reported figures to derive the baseline value of the additional categories of expenditure (energy efficiency additional measures, benefit entitlement checks and certain operational costs) and the impact of refinements to the method for calculating the value of social tariffs. This will be used to adjust the 2006-07 baseline figures as necessary.

6.9. We intend to publish a report, in September 2008, covering suppliers' social spend over the 2007-08 period using the revised monitoring framework. This report will clarify the baseline figure of suppliers' social spend and any revisions to the target spend levels for the 2008-11 period.

6.10. We welcome respondents' views on our proposed approach.

7. Suppliers' overall pricing strategies

Chapter Summary

This chapter sets out our proposed approach to including analysis of suppliers' overall tariff and pricing strategies and the contribution they make to alleviating fuel poverty in our monitoring framework.

Question box

→ **Question 12: Do you agree with our proposed approach to include analysis on suppliers' overall tariff and pricing strategies?**

7.1. Whilst our monitoring framework will focus on suppliers' social spend across a range of initiatives, we consider that it is also important to take into account a supplier's overall tariff structure in considering the contribution they make to alleviating fuel poverty.

7.2. Whilst this does not form a part of the suppliers' spend on their social initiatives or count towards the target, we consider it provides important additional context to suppliers' activities in this area. For example, while SSE has a relatively targeted social tariff it is clear that in some cases their standard tariffs are lower than other suppliers' social tariffs. This approach benefits all customers including those who are fuel poor, vulnerable and hard to reach.

7.3. We also recognise that for a consumer, or consumer adviser, the critical question in considering a social tariff is how that tariff compares with other tariffs that may be available either from the customer's own supplier or more widely in the market. Given the range of tariffs available it is important that customers can be confident that if they go onto a supplier's social tariff they are getting the best deal available.

7.4. We intend to continue to publish comparative information which shows the savings that a customer receives from being on a social tariff as against other tariffs available from their own supplier and in the market more widely. We intend to publish comparisons against standard direct debit rates and against the supplier's best tariff and the industry's best tariff (usually online tariffs)¹¹. As previously highlighted, online rates require access to the internet and may require customers to undertake all their transactions online which provides the supplier with additional cost savings but may not be accessible for all customers. In looking at best tariffs we also propose not to include fixed rate deals as the attractiveness of these may

¹¹ Where online tariffs are not available to all customers or are restricted to certain areas we do not intend to include these in the comparison.

vary over time and there is often a limited window within which to apply. However in some cases these may provide more attractive options for certain customers.

7.5. We intend to publish comparative information on the different tariffs offered by suppliers for different payments methods for dual fuel as well as electricity and gas.

7.6. In our October update, to further highlight and quantify the benefit of suppliers' competitive pricing strategies, we included analysis to show the difference in each supplier's average annual gas and electricity bill weighted by the proportion of fuel poor customers on each payment method. An average across all suppliers was then taken and the difference from the average was calculated for each supplier. The analysis assumed that the customer takes both electricity and gas from the same supplier.

7.7. We intend to continue to undertake this analysis, however we are proposing to show the difference for each supplier to the average price paid by the fuel poor on a per account basis reflecting the actual mix of gas and electricity accounts for that supplier.

7.8. We welcome respondents' view on this proposed approach.

8. Ofgem's monitoring role

Chapter Summary

This chapter sets out in more detail our proposed approach to monitoring and reporting on suppliers' social spend.

Question box

- **Question 13: Do you agree with our proposed approach to our monitoring role?**
- **Question 14: Do you agree with our proposal to require assurance from the Board of each supplier to ensure data accuracy?**

Financial year monitoring and reporting

8.1. From 2007-08 onwards, we intend to monitor and report on suppliers' social programmes on a financial year basis, from 1 April to 31 March period each year.

8.2. As set out in Chapter 6, we will monitor and report on suppliers' social programmes for 2007-08 using the revised framework and this will set the baseline level of spend which suppliers have agreed with Government to increase to £150m by 2010-11.

Continue to undertake a joint Ofgem/BERR survey

8.3. As part of our previous reporting framework, BERR and Ofgem jointly issued a questionnaire to suppliers to monitor their various initiatives to address fuel poverty, affordable warmth and the needs of vulnerable customers. The data suppliers include in this questionnaire is used by BERR to track progress towards Government's Fuel Poverty targets and highlights the commitment of energy suppliers towards these objectives. Ofgem also uses this information as the basis of its reporting on suppliers' voluntary social initiatives.

8.4. We intend to continue to issue a joint questionnaire with BERR to gather the information required to monitor suppliers' social programmes and associated spend. This joined-up approach reduces the reporting and administrative burden for suppliers.

8.5. Further changes may be required to the questionnaire to ensure that it captures all the information required for the revised monitoring framework.

Company assurance and reporting

8.6. Under our previous framework we did not undertake any auditing of the data submitted by suppliers. It is increasingly important, however, that the data we receive is assured and comparable across suppliers, given the increasing scale of suppliers spend and target levels of spend set by Government.

8.7. We therefore propose to introduce a requirement for the Company Board to sign off the figures submitted to Ofgem for the purposes of monitoring that suppliers' social spend. We will also require assurance on behalf of the Board that the spend has been efficiently incurred and effectively targeted at fuel poor customers and those vulnerable to fuel poverty.

Annual Report

8.8. We will report annually on suppliers' social programmes under the final monitoring framework. This report will include information on suppliers' progress towards their social spend targets agreed with Government.

8.9. Before publishing our annual report, we will flag to BERR any concerns that have been raised regarding suppliers' meeting their social spend targets.

Best practice

8.10. Several respondents to the open letter commented that we should include examples of best practice in our reporting.

8.11. We have previously included examples of best practice in our reporting and intend to continue this in our monitoring going forwards. As a part of this, we will look in particular at how effectively suppliers are targeting the help available. This was a specific commitment obtained from suppliers as part of Ofgem's Energy Summit on Fuel Poverty.

Maintain an inputs-based approach

8.12. The agreement with suppliers and Government to increase their spend on social programmes is focussed on target levels of expenditure which suppliers will be required to meet. This naturally lends itself to an inputs based approach.

8.13. Two respondents to our open letter suggested that our monitoring framework should include an outputs based assessment of the impact of suppliers' social initiatives on fuel poor households.

8.14. Whilst we recognise the value of including output measures, the purpose of the monitoring framework is to report on suppliers' progress towards their social spend targets. We therefore consider that an inputs-based approach remains most appropriate. As noted above, we intend to include examples of best practice in our reporting which will capture the effectiveness of suppliers' initiatives and reflect

those with the best outcomes for customers without requiring explicit reporting from suppliers on outputs of their initiatives.

8.15. Government reports annually on its fuel poverty strategy, the delivery mechanism through which Government works to achieve its statutory fuel poverty targets. The UK fuel poverty strategy annual report assesses the impact of measures aimed at reaching Government's targets for eradicating fuel poverty.

8.16. The impact of this additional funding on the UK fuel poverty numbers will depend on how it is directed. BERR have suggested that 100,000 fuel poor households could be removed from fuel poverty if the funding is purely used to offset bills and is equally distributed amongst the poorest households. It is for Government to decide how best to report on the output of this 3 year agreement and its impact on the Government's fuel poverty target.

8.17. We welcome respondents' views on our proposed approach.

9. Next steps

9.1. We welcome responses from interested parties to our proposed approach as outlined in this document and in particular the questions set out at the beginning of each chapter.

9.2. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

9.3. We would especially welcome responses to the specific questions which we have set out in each chapter.

9.4. Responses should be received **by Thursday 12 June 2008** and should be sent to:

Name: Sarah Piggott
Team: Consumer and Social Affairs
Address: Ofgem, 9 Millbank, London SW1P 3GE
Tel: 0207 901 7085
Email: sarah.piggott@ofgem.gov.uk

9.5. We intend to publish our final monitoring framework at the end of June 2008.

Appendices

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Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out in each chapter and which are replicated below.

1.3. Responses should be received **by Thursday 12 June 2008** and should be sent to:

- Name: Sarah Piggott
- Team: Consumer and Social Affairs
- Address: Ofgem, 9 Millbank, London SW1P 3GE
- Telephone number: 0207 901 7085
- Email: sarah.piggott@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, Ofgem intends to publish the finalised framework by the end of June 2008. Any questions on this document should, in the first instance, be directed to:

- Name: Sarah Piggott
- Team: Consumer and Social Affairs
- Address: Ofgem, 9 Millbank, London SW1P 3GE
- Telephone number: 0207 901 7085
- Email: sarah.piggott@ofgem.gov.uk

CHAPTER 2:

➔ **Question 1: What should the qualifying criteria be for a social tariff? Do you agree with our proposed approach?**

- Question 2: Do you agree with the changes we have proposed to calculating suppliers' contributions from their social tariffs?
- Question 3: What are the potential implications and benefits of assessing a supplier's social tariff against the lowest available for that payment method?

CHAPTER 3:

- Question 4: Do you agree with our proposed approach to including rebates as part of suppliers' social spend?
- Question 5: Do you agree with our proposed approach to including PPM equalisation as part of suppliers' social spend only where it is targeted at fuel poor customers?

CHAPTER 4:

- Question 6: Do you agree with our proposed approach to including trust funds as part of suppliers' social spend?

CHAPTER 5:

- Question 7: Do you agree with our proposed approach to including other categories of spend towards suppliers' social spend targets? In particular our proposed approach to energy efficiency initiatives, debt prevention initiatives and operational costs?
- Question 8: How do we ensure robust and true additionality in suppliers' calculations of their energy efficiency spend above their statutory obligations?
- Question 9: Do you agree with our approach to include efficient administration costs where they relate to specific projects involving joint working across industry?

CHAPTER 6:

- Question 10: Do you agree with our proposed approach to calculating suppliers' contribution towards their social spend targets?
- Question 11: Do you agree with our proposed approach to setting the baseline spend?

CHAPTER 7:

- Question 12: Do you agree with our proposed approach to include analysis on suppliers' overall tariff and pricing strategies?

CHAPTER 8:

- ➔ **Question 13: Do you agree with our proposed approach to our monitoring role?**
- ➔ **Question 14: Do you agree with our proposal to require assurance from the Board of each supplier to ensure data accuracy?**

Appendix 2 – The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts¹²

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly¹³.

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them¹⁴; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.¹⁵

¹² entitled "Gas Supply" and "Electricity Supply" respectively.

¹³ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

¹⁴ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

¹⁵ The Authority may have regard to other descriptions of consumers.

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- Promote efficiency and economy on the part of those licensed¹⁶ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation¹⁷ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

¹⁶ or persons authorised by exemptions to carry on any activity.

¹⁷ Council Regulation (EC) 1/2003

Appendix 3 - Glossary

B

BERR

(Department of) Business, Enterprise and Regulatory Reform

BEC

Benefit entitlement check

C

CERT

Carbon Emission Reduction Target

CSR

Corporate Social Responsibility

D

DD

Direct Debit

DWP

Department for Work and Pensions

E

EEC

Energy Efficiency Commitment

F

FPAG

Fuel Poverty Advisory Group

P

Prepayment meter (PPM)

Prepayment meters currently use electronic tokens, keys or cards to enable an amount of energy to be bought by the consumer to be used. The consumer needs to be provided with a network of outlets where tokens can be purchased or card and keys can be charge up. This network of outlets needs to be linked to a payment settlement system for suppliers.

S

SC

Standard Credit

Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk