

## **Citizens Advice's response to Ofgem's proposed reporting framework for monitoring suppliers' social initiatives**

**June 2008**

## Introduction

The Citizens Advice Bureaux (CAB) network is the largest independent network of free advice centres in Europe, providing advice from over 3,200 outlets throughout Wales, England and Northern Ireland. We provide advice from a range of outlets, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination.

The service aims:

- To provide the advice people need for the problems they face; and
- To improve the policies and practices that affect people's lives.

In 2006-2007 the CAB service in England and Wales dealt with 5.7 million enquiries in total, including 1.7 million on debt. The CAB service has seen a significant increase in inquiries on fuel debt issues over recent years. In 2006/07 we received 60,000 new enquiries specifically about fuel debts – an increase of 33 percent on the previous year – with two-thirds of these enquiries related to dealing with debt repayments.

The increased flow of individual cases reported by CABx describing how clients are struggling to make ends meet demonstrates the difficulties people on low fixed incomes, many of whom pay for their fuel by PPMs, experience in attempting to cope with large rises to their fuel bills:

A CAB in Buckinghamshire reported that their client, a man with long term physical and mental health problems, came to the CAB for money advice since he had a number of priority debts to sort out. The client was in receipt of short term, lower rate incapacity benefit of £59.20 per week but his ongoing payments for gas, electricity and water accounted for approximately half his weekly income. Since it was difficult for him to meet essential expenditure and have sufficient available income to offer creditors, he decided to not use his gas heating because he could not afford to pay this and his other priority commitments.

A Lincolnshire CAB reported a case in which their clients, a young couple in their twenties in rented accommodation with good jobs and a 2-year-old child, had been managing to repay debts which they had previously accumulated. However, the spate of recent household fuel rises had tipped the balance of their precarious finances and pushed them into a state where they could not afford to maintain their repayments at the current level. As a consequence they were sinking deeper into debt.

A Norfolk CAB saw a disabled woman living in fuel poverty. Her only income was disability living allowance and income support. She relied on storage heaters to heat her home. The client told the CAB that nearly half of her weekly income was going to pay her electricity bill and that without the disability living allowance, she would find it difficult to afford any heating to speak of at all. The client felt that she had to choose between being cold and being hungry.

In addition, the CAB service dealt with 47,000 enquiries about a range of other fuel matters, a 74 percent increase on 2005/06. Billing and metering issues were responsible for 38 percent of these enquiries, with complaints and redress accounting for 16.5 percent of enquiries, 14 percent due to methods of payment and 9 percent prompted by issues arising from switching supplier.

Initial figures for the first half of 2007-8 show that this general upward trend has continued, with bureaux dealing with almost 35,000 new enquiries about fuel debt and almost 25,000 enquiries about wider fuel matters.

## **General comments**

Ofgem's previous work in publishing information about fuel suppliers' voluntary social initiatives has been particularly helpful in shining a light on this area, highlighting both good and poor performance from suppliers.

Citizens Advice welcomes the opportunity to submit comments to Ofgem's proposed reporting framework for monitoring suppliers' social initiatives. At a time of rising prices, it is clearly in customers' interests that money spent by fuel suppliers on their social initiatives achieves the best possible outcomes.

This is an area that is currently the subject of much informal discussion among government departments, the regulator, fuel suppliers and interested stakeholders, with a number of potentially conflicting or contradictory proposals in circulation. As such, it is difficult to give a definitive view on many of the questions posed in Ofgem's consultation document. And it may be that it becomes necessary to revisit the proposals following the outcome of the discussions and other activities such as Ofgem's market probe. Nevertheless, we trust that the opinions expressed in this document and helpful to Ofgem as they deliberate on defining the parameters for what can be included by suppliers as part of this spend on social initiatives.

## **Responses to specific questions**

**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?**

Previously Ofgem 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. While this clarification is helpful it does not, in our view, go far enough.

To enable CAB advisers to feel more confident about making referrals to social tariffs, and for CAB clients to feel more comfortable that they were making the right choice in opting for social tariffs, we consider that if a tariff is badged as a social tariff it should feature certain minimum standards and should be the lowest tariff that the supplier offers.

In our recent response to Ofgem's market probe we detailed the reasons why customers in the energy market do not necessarily switch to a better deal. This bears repetition here. In our response, we argued that the principal reasons why people don't switch tariffs or suppliers are likely to include:

- the myriad of tariffs available and the confusing nature of many deals (e.g. capped deals, fixed deals, deals with certain 'rewards', dual fuel deals etc) which means that it can be difficult to make direct comparisons between suppliers' offerings;
- the constantly changing prices charged by suppliers which means that it can be difficult to keep track of whether a new deal is actually better value, if so how much better;
- the dubious sales practices which can convince people to enter into new deals based on inflated claims about how much cheaper alternative deals will be, as detailed in the case below:

A CAB in Warwickshire reported that a disabled woman in receipt of incapacity benefit changed electricity supplier, because a salesperson called at her door and persuaded her to do so. The client felt that, contrary to promises made by the sales person, her bills had actually increased rather than decreased. The client was now very worried about the size of her bills.

Ensuring that social tariffs are equivalent to the lowest supplier offerings would offer substantial benefits in terms of simplicity, and would help to ensure that those who are most in need of the help offered by social tariffs take action to apply for such tariffs.

While we are attracted to the proposition that a supplier's social tariff should be assessed against the lowest available for that payment method regardless of which supplier the customer is with, we recognise that there may be significant practical issues to overcome with this approach. This might therefore be an area

where Ofgem's proposals to publish information comparing social tariffs with other rates to provide additional transparency will be helpful to our advisers in understanding where a customer may benefit more from switching supplier or payment method rather than being on their existing supplier's social tariff.

We endorse Ofgem's proposal to return to this area should its work on PPM differentials or DWP's work on data sharing result in significant change.

**Question 4: Do you agree with our proposed approach to including rebates as part of suppliers' social spend?**

We support Ofgem's proposals to include rebates towards suppliers' social spend targets, provided that such rebates are targeted on customers who are fuel poor or vulnerable to fuel poverty. Once again, it will be necessary to revisit this area once the initial findings from the energy supply markets probe are published.

**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?**

Citizens Advice has long campaigned for fuel suppliers to equalize, or at the very least reduce, the differentials charged between PPMs and other payment methods. In our view, the additional amounts charged by many fuel suppliers for PPMs are a major contributory factor to affordability problems. Since those on the lowest incomes are more likely to use PPMs<sup>1</sup> these surcharges disproportionately affect people on low incomes, forcing them not just to pay in advance but to pay significantly more than customers who pay by standard credit or direct debit.

However, in our opinion, the matter of excessive PPM charges is one that should be dealt with by Ofgem's market probe since it is an example of where the market is clearly not working efficiently. As such, we are supportive of Ofgem's proposal that measures to equalise PPM tariffs should only be counted towards suppliers' social obligations only where it is targeted directly at fuel poor customers.

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

Citizens Advice Bureaux and clients both currently benefit from funding delivered by fuel suppliers' trust funds. The Trust Funds deliver a number of important benefits - for example funding workers to work in CABx offices or helping people unable to access debt relief to start their lives afresh. As is revealed in the case below, this support is extremely valuable:

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<sup>1</sup> Ofgem research found that PPM usage is high among low income/social group E households, with approximately 25 percent of those with annual incomes below £10k using PPMs and 20 percent of those in social group E doing so. *Ofgem Accent market research*, May 2005

A CAB in South East London reported a case in which their client, a woman with mental health difficulties living in local authority housing, came to the bureau for help with eight consumer credit debts. Identifying that she had no income and her situation was not going to improve, the adviser made an application to the British Gas Energy Trust for the deposit to allow the client to apply for bankruptcy. The client's application was successful; she is now debt free and able to get on with her life. The client is overjoyed at the simplicity of the process and is now able to rebuild the relationships with her family and look forward to a much better future.

Recent research conducted with EDF Energy Trust on what had happened to clients who received awards from the Trust revealed that more than two out of three people who were helped with their energy bills remained out of energy debt twelve months later.

We heartily support Ofgem's proposal to include suppliers' spend on trust funds as counting towards meeting their obligations in respect of social initiatives.

**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?**

We agree with Ofgem that it is important to take account of initiatives that suppliers offer their fuel poor and vulnerable customers, which do not fall neatly into the categories discussed above. As Ofgem notes, such programmes and initiatives are often conducted in partnership with third party agencies and can be highly effective in reaching the otherwise 'hard to reach' customers who may be living in fuel poverty.

In addition, initiatives such as benefit entitlement checks have been shown to be particularly effective in tackling fuel poverty, with Government research showing that "income improvements were the most important factor in reducing fuel poverty", with 61 per cent of the reduction in fuel poverty since 1996 attributable to improvements in incomes.<sup>2</sup> Funding benefit checks, or preferably holistic benefits advice, should therefore be allowable under the parameters being drawn up by Ofgem. In our opinion such checks and advice are best delivered by trusted intermediaries rather than commercial companies.

We also agree that energy efficiency programmes should, in theory, be counted as contributing to suppliers spend on social initiatives. However, this should only be the case where it is clearly demonstrable that such spend is additional to what suppliers would be obliged to do anyway under the CERT scheme.

**Question 8: How do we ensure robust and true additionality in suppliers'**

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<sup>2</sup> *The UK Fuel Poverty Strategy – 3rd Annual Progress Report 2005*, Defra and DTI, p.27

**calculations of their energy efficiency spend above their statutory obligations?**

It will be critical for Ofgem not only to gain assurances from suppliers that spending on energy efficiency initiatives represents 'new' money above and beyond what they are obliged to do under their statutory obligations, but to put in place robust reporting requirements to ensure that this is the case. We are not well placed to specify how this should be achieved.

**Question 9: Do you agree with our approach to include efficient administration costs where they relate to specific projects involving joint working across industry?**

We are sceptical about Ofgem's proposal to allow suppliers to include efficient administration costs where they related to specific projects across the industry.

We are unsure how it will be determined that such administrative costs are "efficient" or represent value for money, and we are fearful that inclusion of such a measure might account for significant amounts of money yet deliver very little in terms of lifting people out of fuel poverty or helping them pay for their energy.

**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?**

We support Ofgem's proposal 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. Not only will this enable BERR to monitor suppliers' progress towards their spend targets but it will also allow consumers and their agencies to scrutinize suppliers' spend. Importantly, this transparency may also act as a mechanism to encourage suppliers to do more and go beyond the minimum level of obligations negotiated with BERR.

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

This information should not form part of suppliers' spend on their social initiatives but it would be helpful for Ofgem to publish it alongside this information.

**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**

Ofgem's proposals in these areas strike us as sensible.