

Ofgem Consultation: Monitoring suppliers' social initiatives – proposed reporting framework

Response from David Taylor MP, Labour/Co-op, North West Leicestershire

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

The qualifying criteria for a social tariff should be:

- the cheapest tariff offered by an energy supplier;
- does not fall below a level set by Ofgem;
- is theoretically available to all energy customers, irrespective of payment method or whether they have an online account or not.

This would bring simplicity and clarity to the system for consumers and industry, as well as offering the best chance of meeting the government's statutory target of eliminating fuel poverty amongst vulnerable households by 2010 – an ambition that should unite government, regulator, industry and consumers.

I do not agree with Ofgem's proposed approach. At present, only 1 in 15¹ fuel poor customers benefit from the existing social tariff schemes offered by the six energy supply companies – this is unacceptable.

In addition, the government's invitation to companies to innovate and compete in the provision of social spend schemes is inappropriate given that half of energy consumers, and 65% of pensioners, have never switched energy supplier and a third of those who have switched moved to higher tariffs.²

Question 2: Do you agree with the changes we have proposed to calculating suppliers' contributions from their social tariffs?

It is alarming that the regulator does not already use data from suppliers on average annual consumption levels for customers that qualify for their social tariffs, split across different payment methods, when calculating suppliers' contributions (to tackling fuel poverty, I assume) from social tariffs.

The proposed change is overdue and illustrates the argument for passing Ofgem's responsibility for monitoring social tariff schemes to energywatch/the National Consumer Council.

Question 3: What are the potential implications of assessing a supplier's social tariff against the lowest available for that payment method?

Hopefully, that fuel poor customers and households vulnerable to fuel poverty will pay a lower proportion of their income to energy suppliers.

¹ www.energywatch.org.uk/media/news/show_release.asp?article_id=1078

² BERR Select Committee Evidence Session, Energy Prices Inquiry 31st January 2008, Q63-Q66
www.publications.parliament.uk/pa/cm200708/cmselect/cmberr/uc293-i/uc29302.htm

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

No. Not all energy suppliers' rebates are to customers in fuel poverty or in households vulnerable to fuel poverty. Only rebates to customers in these groups should be included in energy suppliers' social spend figures and Ofgem should make this explicit to energy suppliers and fine those who seek to include rebates for customers on higher incomes in their social spend.

If the terms of an energy suppliers' social tariff were mandated by government in the *Energy Bill* then there would be no need to group together types of expenditure to count toward a generalised 'social spend' and industry expenditure on fuel poverty would rise way beyond the £225 million deal struck by the government with energy suppliers.

A mandated social tariff would also be more proportionate to the huge profits the six energy suppliers continue to enjoy, despite the rising wholesale cost of energy and would be targeted at those consumers most in need of support.

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?

Yes.

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

Yes, although the definition of a social trust fund should be made explicit.

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?

I do not agree with Ofgem's view that the voluntary initiative has worked. The range and variety of energy suppliers' voluntary social initiatives is not helpful to customers, or regulators.

I do not think that energy efficiency measures should be included in suppliers' social spend targets. These should be categorised as sustainability measures.

I agree that debt prevention and mitigation initiatives *should not* be included in energy suppliers' social spend.

I do not think that funding to external organisations involved in debt mitigation, like Citizens Advice Bureau, should be included in energy suppliers' total spend on social initiatives, because energy suppliers might be tempted to boost their social spend

figure by allocating sums to these organisations, who do not deal exclusively with the fuel poor.

The cost of benefit entitlement checks (BECs) should not be included in the social spend of energy suppliers. It is difficult to establish a figure for the administrative cost of carrying out an individual BEC. The House of Commons Library asked EAGA plc what the cost is of carrying out a benefit check for a Warm Front applicant and was told that they could not give the figure because of commercial confidentiality.

If Ofgem permit inclusion of BECs in energy suppliers' social spend, I suggest that they establish a baseline figure for carrying out an individual BEC.

Question 8: How do we ensure robust and true additionality in suppliers' calculations of their energy efficiency spend above their statutory obligations?

Through establishing a reliable audit process for spend on energy efficiency that recognises only expenditure that has a direct effect on energy efficiency outcomes.

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

No.

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

No. As well as market share, the calculation should take into account the profits recorded by each energy supplier in the previous financial year. Where there was an increase, the target for social spend should increase accordingly but there should be no mechanism for adjusting social spend downwards, only a freeze of the existing figure.

Question 11: Do you agree with our proposed approach to setting the baseline spend?

No. Benefit entitlement checks and energy efficiency measures should not be included in energy suppliers' social spend.

The baseline should only include existing expenditure on social tariffs and rebates. Inclusion of other spends would distort the baseline and give a misleading figure for the amount energy suppliers are spending on social support schemes.

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

Yes.

Question 13: Do you agree with our proposed approach to our monitoring role?

Yes.

Question 14: Do you agree with our proposal to require assurance from the Board of each supplier to ensure data accuracy?

Yes.