

Maxine Frerk
Director, Governance, Consumer and Social Affairs
Ofgem
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Dear Maxine

Monitoring Suppliers' Social Initiatives

We welcome Ofgem's support for current initiatives and for the additional energy efficiency measures essential to securing a sustainable solution to fuel poverty.

Our concern is that the rules Ofgem proposes, and the uncertainty in those rules, will restrict the development of new initiatives to tackle fuel poverty and hence lose the benefit of encouraging diversity in supplier programmes.

The overarching principle should be that any additional expenditure which is reasonably well targeted on the fuel poor or groups vulnerable to fuel poverty should be eligible. It is not appropriate to require additional other criteria, such as for price support to be at a certain level, or to exclude measures such as effort to improve targeting. These additional criteria should only be used by Ofgem to comment on initiatives.

Our detailed comments are provided below.

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

The only qualification for a tariff to be eligible should be that it reduces expenditure for fuel poor customers compared to the suppliers' corresponding standard offer.

It would, for instance, be nonsense for a £20 saving to a fuel-poor online customer to be eligible but a £100 saving to a PPM customer to be ineligible (even more so as the administration costs of identifying fuel poverty amongst PPM customers may also be higher, and should also be eligible – see Q9).

The criteria for a social tariff should only be used to categorise by effectiveness in relieving fuel poverty or other measure of stakeholder interest. In Ofgem's August 2007 report two categories were used: social tariffs which matched the suppliers' direct debit tariff and other social discount tariffs (with rebates a third category). Since August last year, the target of the programmes has changed from general social initiatives to maximising the impact on fuel poverty. This suggests that the categorisation should have a greater emphasis on targeting and on the level of benefit for the fuel poor, for instance categories of social tariff could be: (i) 15+% saving with 50% of expected customers being fuel poor; (ii) 15+% saving but less well targeted; and (iii) <15% saving.

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

We agree that the principles should be to use actual consumption and the customers' chosen payment method. However, we recommend that suppliers calculate the contribution. Suppliers will be better able to reflect the complexities of price changes and part year effects (which will be more important as the customer numbers on social tariffs increase) and also the benefit of non-standard offers such as price protection products. Ofgem would then review and agree the methodology.

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

As noted in response to Q1, Ofgem's categorisation of different tariffs should be designed to inform analysis of effectiveness in relieving fuel poverty. We envisage that this analysis is done annually rather than continuously. It would then be practicable to compare each social tariff to best available prices over the year.

It would not seem appropriate for Ofgem to seek to provide 'best buy' advice as aside from the difficulty of keeping such advice up to date, other services such as energy efficiency advice and offers could be more important to customers in helping them reduce their energy costs.

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

We agree with the inclusion of rebates targeted on groups of customers vulnerable to fuel poverty. The benefit of rebates is that they can be matched to a specific issue, such as cold weather or rising prices. They may also provide more opportunity for innovation, such as to reward customer interest in sustainable solutions, than a simple social tariff could. As proposed above, rebates should be a separate category from the different types of social tariff.

We are extremely concerned at the thought expressed in Paragraph 3.11 that Ofgem may change the eligibility rules in 2009. Such uncertainty is incompatible with encouraging suppliers to innovate and undermines the basis of the agreement we have entered into.

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, the measure should be funds spent including administration costs.

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?*

Yes; we particularly welcome Ofgem's support for energy efficiency advice and measures as these are essential to providing sustainable solutions to fuel poverty. Clearly such measures must be additional to CERT, but Ofgem must not set such a high a threshold of proof of additionality that mixed funding, part CERT and part supplier social programmes, is ruled out.

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

Ofgem should apply a risk-based approach to suppliers' calculation of the additional contribution. The greatest scrutiny should go to larger sums and those which are less widely accepted as tackling fuel poverty and a reduced level of scrutiny to smaller sums and measures which are most useful in alleviating fuel poverty. Ofgem should not expect suppliers' calculations to be without some element of judgement, but can expect this to be transparent. It is important that Ofgem's monitoring does not bias expenditure on the basis of ease of audit of the input measure – this would be a bias against energy efficiency and no more robust as energy efficiency has certain benefit, unlike a social tariff (the customer may have switched without it).

Ofgem should apply a similar risk-based approach to operational and administrative costs, relying on supplier's assessment of the cost of supporting a programme and giving the greatest scrutiny to less well targeted programmes with higher overheads.

Ofgem should publish data on overhead costs in order to inform stakeholders.

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

As noted above the administration costs of any programme should be eligible, not just those which involve joint working across industry (or with 3rd parties). Ofgem cannot assess what administrative costs are efficient, but could publish costs as a proportion of total programme spend as a means of informing stakeholders.

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

We agree with the principles, but as Ofgem have the relevant data (the year end customer numbers provided for CERT), we suggest that Ofgem advise us of our required spend at the same time as the CERT advice.

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

We are not aware of any programmes running in 2006/7 and 2007/8 which BERR were unaware of (benefits entitlement checks and industry joint initiatives should not lead to any change) and so would only expect the baseline to change due to a material methodology change. Ofgem should aim to resolve any such uncertainty promptly – for instance whether administration costs for suppliers' own initiatives are to be included. We do not believe that there should be any change to the eligibility rules on tariffs or rebates, but if Ofgem is minded to make any change it must do so promptly as these would affect 2008/9 targets.

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

We agree with the method, as Ofgem should comment on overall price strategies. Ofgem should not rule out a supplier being able to make the case that a general pricing strategy is of more benefit to fuel poor customers than other social initiatives, some of which are relatively poorly targeted on the fuel poor.

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

Yes. We would expect to be able to complete the joint questionnaire by the end of June. We would need Ofgem to review the methodology for calculating benefit from any novel programmes within six weeks of us providing it.

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

We believe that data accuracy would be assured, and the regulation more proportionate, through sign off by a director of the statutory body holding the relevant supply licences. If Board approval is required the need to brief all directors would mean that we may not submit the joint questionnaire until end July. We understand that this timescale may cause BERR a problem with their regular reporting and if Ofgem consider Board sign off essential, suggest that Ofgem seek changes to the scope of the BERR report.

Please do not hesitate to contact me on 02476 181 358 if you need further information.

Yours sincerely

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Retail Regulation Manager