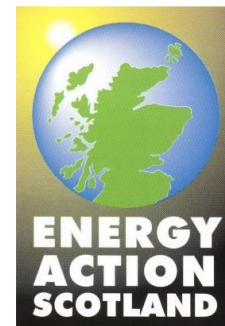


Response to Ofgem Consultation on Monitoring suppliers' social initiatives – proposed reporting framework.



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Introduction

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes.

EAS welcomes the opportunity to respond to Ofgem's Consultation on "Monitoring suppliers' social initiatives – proposed reporting framework". EAS has previously submitted written evidence to the Business, Enterprise & Regulatory Reform (BERR) Committee "Inquiry into possible anti-competitive behaviour in the UK's energy market" and has also responded to Ofgem's consultation on "Energy Supply Markets Probe – Call for Evidence" and the energywatch consultation on "The nature of social tariffs in the energy market".

Fuel Poverty in Scotland

The Scottish Government is required by the Housing (Scotland) Act 2001 to end fuel poverty, as far as is practicable, by 2016 and plans to do this are set out in the Scottish Fuel Poverty Statement. The number of Scottish households living in fuel poverty dropped from 738,000 (35%) in 1996 to 286,000 (13%) in 2002. Half the reduction was due to increases in household income, 35% to reduced fuel prices and 15% to improved energy efficiency of housing¹. The most recent figures from the Scottish House Condition Survey Key Findings 2005/06 Report show that there were 543,000 households living in fuel poverty in Scotland in 2005/06, representing 23% of the total.

According to figures produced by Communities Scotland² early in 2008, for every 1% rise in fuel prices an estimated 8,000 more households would go into fuel poverty. Based on these figures EAS estimates that there are currently 700,000 households, almost one in three, in fuel poverty in Scotland. This significant increase in fuel poverty is widely accepted to be due to the dramatic increases in domestic energy prices and EAS believes that the additional price rises announced recently will result in a further increase in fuel poverty.

EAS believes that the Scottish Government's target on the eradication of fuel poverty can be met but only if significant additional resources are directed into fuel poverty initiatives and therefore EAS is calling on the Chancellor of the Exchequer and Scottish Ministers to use the extra VAT revenue generated by energy price rises to boost programmes aimed at ending fuel poverty.

General comments on social tariffs and Ofgem's role in relation to fuel poverty

EAS understands that Ofgem's primary duty is to protect the interests of consumers by promoting competition and that its secondary duty is to pay particular attention to the needs of vulnerable consumers. In response to the inquiry into possible anti-competitive behaviour in the energy market, EAS asked the BERR committee to consider whether the current duties of Ofgem should be changed to ensure that there is a stronger focus on the needs of vulnerable, low income and

¹ Fuel Poverty in Scotland: Further Analysis of the Scottish House Condition Survey 2002

² Estimate of Fuel Poverty Households in Scotland: Scottish House Condition Survey March 2008

fuel poor consumers, until such time as fuel poverty targets have been met. Indeed EAS has suggested that this should become Ofgem's primary duty.

EAS believes that improving energy efficiency provides the most sustainable solution to fuel poverty while also helping to meet Government's targets on reducing carbon; therefore EAS recommends that Government should significantly increase investment in energy efficiency programmes that focus on the fuel poor. It is estimated that the across-the-board energy price increases in early 2008 could bring the UK Treasury an additional £175 million through VAT and EAS believes that this extra VAT revenue should be used exclusively to tackle fuel poverty in the four UK countries.

EAS is pleased that Ofgem recognises the importance of social tariffs in alleviating the effects of high energy prices and that Government has secured an agreement with suppliers to increase their collective expenditure on their social programmes to at least £150m per year until 2011. It is absolutely essential to ensure that there is no double counting between social initiatives and Carbon Emissions Reduction Target (CERT) and therefore EAS recommends that reporting and monitoring these programmes should be kept entirely separate so that there is no possibility of overlap or double counting. In addition to this EAS recommends that suppliers' social initiatives should be independently audited in order to ensure that they adequately reflect *additional* spending on social programmes and that there is sufficient transparency to allow reasonable comparisons to be made of the actual impact of the various social initiatives.

EAS agrees that Ofgem should not allow suppliers to include their costs associated with prepayment tariff equalisation and notes that this issue will be addressed as part of the energy supply markets probe. EAS also supports Ofgem's commitment to refer the matter to BERR if there is no agreement on the monitoring of social initiatives.

EAS welcomes the "Fuel Poverty Action Programme" recently published by Ofgem and is pleased that it includes proposals for suppliers to step up their targeting of social programmes for fuel poor customers and to make more proactive use of their own customer records. It is disappointing that Ofgem has not acted more swiftly to address the issue of price differentials between prepayment (PPM) and Direct Debit tariffs.

Response to specific questions in the consultation

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

EAS recognises that energy companies have introduced various products in an effort to assist vulnerable, low income, and fuel poor customers but it is often difficult to distinguish some of these products as "social" initiatives, particularly if they are more expensive than other products which are available from the same supplier. It is therefore essential that Ofgem sets out clear parameters for social tariffs and ensures that any products which do not fit into the Ofgem criteria should not be marketed as social tariffs.

EAS believes that social tariffs should be the lowest tariffs available from the company and that they should be targeted specifically at low income and vulnerable customers. EAS suggests that customers should remain on the social tariff for a fixed period of time, either one year or ideally two, and that they should also be offered energy efficiency advice and income maximisation advice as part of the social tariff package. This approach should ensure that most customers on a social tariff for a fixed period of time would be removed from fuel poverty as a result. EAS suggests that

the Scottish and Southern Energy energyplus care social tariff is an example of best practice in this respect.

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

EAS recommends that Ofgem should audit suppliers' contributions to their social initiatives and social tariffs to ensure that they are indeed effective and that the results should be published. This would enable consumers and their representatives to compare the various products and to have confidence in their effect.

In the consultation document Ofgem admits that the current methodology does not allow comparisons between E.ON's Staywarm social tariff and other suppliers' social tariffs. The Staywarm tariff is currently only available to elderly customers and therefore cannot be regarded as a truly social tariff as it is not available to all low income and fuel poor customers. However, EAS accepts that it can offer benefits to some pensioner households. EAS supports the proposal for Ofgem to use actual data from suppliers' own average consumption levels and also to include information from E.ON on their Staywarm tariff provided this includes an explanation of the Staywarm tariff.

EAS does not accept the suggestion in the consultation document that customers on a social tariff typically have higher consumption than other customers and suggests that if suppliers are aware of this issue then they should offer these customers energy efficiency advice.

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

EAS does not support the proposal that a supplier's social tariff should qualify if it is simply the lowest available for that payment method as this would seriously disadvantage PPM customers, many of whom would be able to benefit considerably from switching to a legitimate social tariff and/or a different payment method.

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

EAS agrees with Ofgem's view stated in the consultation document that social tariffs are "typically but not necessarily better targeted at fuel poor customers than some rebates" but accepts that providing rebates can also make a contribution to the alleviation of fuel poverty. Ofgem has highlighted the benefits of having a diverse approach to social initiatives and therefore EAS accepts that rebates can provide a valuable contribution to the eradication of fuel poverty provided they are effectively targeted at the fuel poor and that they offer a reasonable level of rebate.

EAS recommends that Ofgem should define minimum criteria for rebates that can be included 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?

EAS does not agree that equalising PPM tariffs with other tariffs should be credited towards suppliers' social spend and strongly recommends that Ofgem does not agree to this proposal which was put forward by some suppliers. EAS is pleased that Ofgem does not consider this to be appropriate and notes that this subject will be dealt with separately under the energy supply

markets probe.

The consultation document suggests that Ofgem intends to continue to count PPM equalisation “where it is targeted directly at the fuel poor”, but EAS cannot see any reason to continue with this practice and hopes that this issue will also be addressed as part of the supply markets probe.

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

Trust funds have in the past provided valuable assistance to customers struggling with debts and also in providing funding for agencies that provide advice and assistance to fuel poor customers, but these vary enormously in eligibility criteria and are not well targeted at the fuel poor.

It is essential that any trust funds are independently managed and that the projects which receive funding from the trust funds are properly scrutinised. This will ensure that the money is actually spent on providing assistance and energy advice for fuel poor households and that the trust funds are not used simply as a method of writing off energy debts.

EAS would only support the inclusion of trust funds as part of suppliers' social spend if the above criteria are adhered to.

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?

EAS believes that there should be absolutely no ambiguity whatsoever about what categories of spend can be included towards suppliers' social spend targets and recommends that Ofgem should set out clear and unambiguous guidelines on this.

The consultation document suggests that some suppliers have supported the inclusion of spend on energy efficiency and benefit entitlement checks within social spend targets. EAS does not agree with this and strongly recommends that Ofgem insists that only spending on social tariffs and possibly rebates and trust funds should be included in the social spend targets.

EAS does not accept that the administrative costs of referring customers for benefits entitlement checks and energy efficiency grants should be included within social spend targets. It is surprising to note that two suppliers suggested to Ofgem that their own debt mitigation and prevention initiatives should also be included towards their social spend despite the fact that this is part of the suppliers' regulatory obligations. EAS believes that it is absolutely essential that there is no overlap or double counting between these statutory obligations and real social initiatives. In view of these facts EAS recommends that suppliers should not be allowed to claim the administrative costs associated with benefits entitlement checks, energy efficiency advice and debt mitigation as part of their social spend targets and reiterates the point that any permitted costs should be in *addition* to costs related to suppliers' statutory obligations.

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

EAS does not accept that the cost of energy efficiency services should be included and doubts whether it would be possible to ensure robust evaluation of the true additionality of these initiatives and suggests that there is a strong danger of double counting if this proposal is agreed. In any case EAS would point out that suppliers already recover the administrative costs of providing

energy efficiency advice as part of their statutory obligations under CERT.

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

It seems obvious to EAS that energy suppliers, in common with any other businesses, should ensure that any projects they undertake with external organisations should be administered efficiently. EAS accepts that there may be some additional costs associated with funding third party initiatives which could theoretically be included within social targets provided these costs are reasonable and not already counted elsewhere, but these costs should only be allowed if suppliers can prove to Ofgem that they are indeed providing real additionality in relation to fuel poverty.

EAS recommends that Ofgem should scrutinise any requests to include administration costs for joint working across the industry very closely before allowing their inclusion within social spend targets.

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

EAS does not agree that suppliers should be permitted a flexibility option which would allow them to carry over any shortfall or surplus amount of their spending on social initiatives from one year to the next. This type of arrangement has had a very negative impact on the delivery of Energy Efficiency Commitment programmes in the past and EAS would argue against this being permitted within social spending targets. EAS is pleased to note that Ofgem does not propose to include a flexibility option and that any failures to meet targets will be referred to BERR for consideration.

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

The proposed approach set out in the consultation document seems to EAS to be reasonable given that BERR has indicated that the baseline figure can be adjusted at a later date if necessary.

It is essential to ensure that only additional spending on social initiatives, not already accounted for under CERT or other statutory obligations, are allowed within social spending targets.

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

The availability of comparative information showing the savings from social tariffs and the different payment methods available is extremely useful for consumers and their representatives and EAS is pleased that Ofgem has indicated that it will continue to undertake analysis of suppliers' average annual gas and electricity bills and to publish this information.

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

The consultation document suggests that Ofgem currently uses a questionnaire issued jointly with BERR to suppliers to monitor suppliers' fuel poverty initiatives, but there is no indication that either Ofgem or BERR seeks information from consumer bodies or consumers themselves about the effectiveness of suppliers' social initiatives. EAS recommends that Ofgem should ensure that consumer views of these initiatives are also included as part of the monitoring process.

EAS is pleased to note that Ofgem intends to include examples of best practice in the reporting but is disappointed that Ofgem has decided against adopting an outputs based approach as this would be a much better way of illustrating the actual effectiveness of the various social initiatives.

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

EAS agrees with the proposal to require the Company Board to sign off the figures submitted to Ofgem. In addition to this EAS recommends that data from suppliers should be independently audited to ensure it is accurate and properly reflects suppliers' social initiatives spending and that it is effectively targeted at fuel poor and vulnerable customers.

Conclusions

EAS welcomes the focus on social tariffs and other social programmes and strongly recommends that Ofgem uses all its powers to ensure that any initiatives that are marketed as social programmes are independently audited to ensure that they are additional to suppliers' statutory obligations and that they are effectively targeted at fuel poor and vulnerable households. It is disappointing that there is no reference in the consultation document to penalties for any failure to meet social obligations targets and EAS recommends that Ofgem should also consider this issue as part of the monitoring process.

Ofgem has a key responsibility in relation to ensuring that fuel prices are no higher than necessary and therefore EAS urges Ofgem to use all its powers under the Competition Act in order to restore confidence in the energy market and to drive down energy prices.