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## **Response to Consultation on Monitoring suppliers' social initiatives – proposed reporting framework**

Economic Consulting Associates provided advice on social tariffs to the then DTI in the lead up to last year's Energy White Paper. Our comments below on Ofgem's proposed monitoring framework for suppliers' social initiatives are made on our own behalf.

### **Section 2: Definition of a social tariff**

We note an inconsistency in OFGEM's approach to social tariffs and pre-payment meter equalisation. You exclude pre-payment meter equalisation as defined social initiatives on the grounds that it is not well targeted at the fuel poor. However, the accuracy of suppliers' targeting strategy is not considered when calculating the suppliers' contribution from social tariffs. Since you do not propose to include suppliers' administrative and operational costs<sup>1</sup> in their contribution (Sections 5.20 to 5.25), suppliers have an incentive to minimise administration costs but have no incentives to accurately target the fuel poor. It seems to us that it is necessary to include targeting criterion (not only for social tariffs but also for rebates, trust funds and other categories) in the calculation of suppliers' contributions. We appreciate that the data sharing model between suppliers and the Department of Work and Pensions is at an early stage of development and the accuracy of targeting cannot reasonably be incorporated as a parameter in the contribution calculation for the year 2008-09. It is important, however, for OFGEM to flag now that you intend to incorporate targeting as a criterion so that suppliers are not tempted to allow targeting accuracy to decline.

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<sup>1</sup> Except certain categories of cost.

OFGEM proposes that the qualifying criterion for a social tariff should be that the tariff must be at least as good as the suppliers' standard direct debit tariff. This appears to be driven more by concerns over how products are labelled to customers than with economic regulation. It also tends toward standardisation which conflicts with Government's desire for suppliers to innovate (Section 2.6). It can certainly be misleading to customers if a supplier markets an expensive product as a "social tariff", and you may wish, for reasons of transparency and to help the frontline support agencies (as you note in Section 2.15) to restrict suppliers' use of the term. But it is simplistic to exclude subsidised tariffs that fail this test from the broad category of supplier initiatives. It is true that the calculation of the suppliers' contributions would be more complex (than that described in Sections 2.17 to 2.19) if other subsidised tariffs are counted but this is not a reason to exclude other subsidised tariffs that are aimed at the fuel poor.

#### **Section 5: Other categories of spend – operational and administration costs**

You propose that only administration and operation costs (efficiently spent) that relate to specific projects should be included in suppliers' contributions. You note (Section 5.22) that there are issues with establishing whether costs are truly additional and in providing an incentive for suppliers to keep costs to a minimum, but this is not a reason to ignore administration and operational costs for social initiatives including social tariffs (these are significant costs). Why not make a fixed, standard, allowance for administration and operational costs for each of the different types of social initiatives and include this in suppliers' deemed contribution?

#### **Section 5: Other categories of spend – other fuel poor**

Nearly 20% of poor households use fuels other than electricity or natural gas for heating<sup>2</sup>. A significant proportion use heating oil whose costs have risen recently steeply. Supplier initiatives aimed at providing subsidies for heating oil (or coal) for fuel poor households should be allowed as social initiatives. This would, as well as helping the fuel poor, help reduce distortions among fuels.

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<sup>2</sup> English House Condition Survey (Communities and Local Government), 2004.