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Dear Sarah

Ofgem's consultation on monitoring suppliers' social initiatives

We refer to the above consultation issued on the 30th of May and seeking our views on your proposed parameters, monitoring and reporting arrangements for suppliers' social initiatives over the next three years. We have evaluated your proposals and attach our responses on a number of areas.

We hope that you can consider the points that we have made and look forward to the opportunity to discuss these further with Ofgem. In the meantime, please do not hesitate to contact me on 07875 116519 should you require any further clarification.

Yours sincerely

Valentine Mulholland
Market Development Manager

Ofgem's consultation on monitoring suppliers' social initiatives

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

We believe that the suggestion that a supplier's social tariff should be at least as low as their lowest core tariff ('core' excludes online tariffs), namely their direct debit tariff, is a reasonable minimum benchmark for suppliers to elect to match or exceed. To set the minimum standard any lower would be unduly prescriptive and would remove the potential for innovation and/or competition between suppliers.

We therefore support Ofgem's proposal, but are concerned at the suggestion that this could be reviewed within a few months following the outcome of Ofgem's Energy Market Probe, as any change in Ofgem's policy would create uncertainty for both customers and suppliers.

Unlike a 'one off' rebate, a social tariff can offer customers some form of longer term engagement and commitment, with a greater degree of certainty about their energy bills over coming months or possibly years.

In addition, as suppliers contemplating how we will commit our social programme, we need to make decisions within the next few weeks that will both offer our vulnerable customers the best possible support, and ensure that we deliver our programme within the agreed period. We are therefore relying on the certainty that Ofgem agreed to provide by the end of June as to the criteria for future spend. Without this certainty, suppliers will be encouraged to opt for short term solutions that may not be in the best interest of customers.

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

The proposed changes would appear to represent a fairer reflection of the true costs to suppliers of their social tariffs, although it is not entirely clear from the proposal whether all three payment methods would be included, including direct debit. A significant percentage of the customers on our existing social tariff have chosen that payment method, and this needs to be reflected in any calculation.

In electricity, accuracy could also be increased by calculating the savings for Economy 7 customers separately from standard electricity rates.

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

It may prove difficult to assess a supplier's social tariff against the lowest available for that payment method as:

- The realities of intense competition between suppliers, mean that prices tariffs change frequently. Therefore information on the 'lowest available tariff' will need to be updated and re issued very quickly if it is to remain accurate, and we are not sure whether Ofgem intend to fulfil this relatively onerous requirement.
- Regional cost differentials, such as distribution charges, would need to be taken into account

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

We agree that rebates can play a useful part in supporting those customers at risk of fuel poverty, particularly if they are managed in a way which gives customers some sort of certainty in budgeting, and if they are paid to cover winter energy bills. It is important to ensure, as EDF Energy do for our social tariff, that prepayment customers also benefit and that options are explored for paying them the rebate i.e. a bank cheque is often not ideal for customers who choose this payment method and who may not have a bank account.

Again, the issue of certainty about eligibility of rebates is key here, as suppliers may plan to issue a rebate in March 2009, only to find out that Ofgem have revised their guidelines in December 2008, after the energy markets probe. This would leave a supplier very little time to revise proposals, and the rebate could well have already been announced to customers.

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?

We highlighted in our recent response to Ofgem's open letter on the framework used last summer that this proposal creates a competitive disadvantage for suppliers like ourselves who have equalised electricity prepayment across all customers, compared to those who have equalised only through their social tariff. We would effectively be penalised for having taken the decision to remove the surcharge for all our prepayment customers, including the 20% we estimate to be fuel poor, earlier on, whilst others who have persistently refused to follow our lead would gain a significant cost advantage.

We strongly object to Ofgem's proposed approach and would encourage Ofgem to urgently re-think this proposal. We would suggest that a compromise would be for Ofgem to develop a calculation which recognises as eligible spend the element of a supplier's electricity prepayment tariff

equalisation which benefits customers who are deemed to be fuel poor. Both individual suppliers and BERR have calculated the level of prepayment customers estimated to be fuel poor, so such an analysis should be relatively straightforward.

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

As the supplier who introduced the concept of energy trust funds, we remain firmly convinced of the valuable contribution that they can make as part of a range of solutions to support those at risk of fuel poverty, and therefore agree that donations to trust funds should be counted as eligible spend. However, we are surprised at the suggestion that only the amount actually awarded as grants by a trust fund would be eligible.

The EDF Energy Trust Fund has been set up as an independent, charitable trust governed by a Board of trustees. It does not form part of our group and we play no part in the day to day running of the Trust. Instead, they appoint independent administrators who they pay to receive applications, assess them and make awards. The fees to these administrators are paid by the trust fund from the funds they receive as donations from us. Under your proposals, these costs could not be included as eligible spend, so only part of our donations to the trust fund would be eligible, and the element used by them to operate the trust fund would have to be an additional contribution from us over and above our social programme.

We believe that this will pose a problem to all the energy trust funds, and make them a far less attractive option for suppliers than, for example, a donation to CAB to run a debt advice scheme. This will effectively discriminate against energy trust funds in comparison with other third part debt advice agencies. We are sure that this is not the intention of Ofgem and we would therefore ask you to reconsider this discrepancy.

Furthermore, the independence of trust funds also means that we cannot control how or when they make awards, so a supplier could make a donation to a trust fund that they do not award as quickly as anticipated so that this is not counted within a particular year's spend and leaves a supplier with an unexpected shortfall in their programmed spend, despite having made the donation to the trust fund within the period.

This level of uncertainty suggested by Ofgem's proposed treatment of trust funds could make suppliers favour their own, directly controlled programmes of spend or donations to other third parties as offering the greatest ability to plan their programmes.

Finally, we would also like clarity as to whether trust fund spend on grants to third party debt and welfare advice agencies will continue to be deemed

eligible. These grants can reach large numbers of vulnerable households who are assisted by the beneficiary agencies.

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 broadly welcome the proposal to continue to include other categories of spend, as the difficulties we face in identifying fuel poor households mean that we need a range of approaches and to work with a wide variety of partners to maximise the opportunity to reach those in greatest need. However, Ofgem's proposal in this respect does raise a number of issues:

There is a clear inconsistency in the suggestion that suppliers' operational and administrative costs to run greatly increased programmes of activity should simply be borne as additional costs, whereas any funding to third party organisations will invariably include their own such costs, which will therefore count as eligible costs. For example, we know from experience that the costs to apply a social tariff discount to prepayment customers are disproportionately high as this involves a complex rebate administration, and would not be eligible spend, whereas if we focused our spend on third party donations, all our spend would count as part of our programme. This position could have the consequence of encouraging suppliers to either 'outsource' most of their programme, or focus on those initiatives which are the easiest to administer, rather than those that make the greatest impact on fuel poverty.

We would also appreciate clarity from Ofgem as to whether the cost to a supplier of support 'in kind' to a third party organisation, usually by seconding a member of staff to extend the services offered by that organisation, could be counted as eligible spend – we find that such organisations sometimes prefer for us to take this approach.

Finally, there is reference to energy efficiency measures which are in addition to existing programmes and funding streams, but we would also ask Ofgem to consider including microgeneration measures, such as solar thermal, under the same principles where they are additional to any CERT or other programme funding. Such measures can make a significant impact in reducing the energy bills of fuel poor households, especially where they are not connected to the gas network, and offer long term solutions.

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

We believe that it would be possible to review fuel poverty programmes that include an element of energy efficiency and identify the elements

additional to mandatory CERT spend or Warm Front or Decent Homes funding. Our London Warm Zone (LWZ) project is highly successful in tackling fuel poverty specifically because it delivers integrated solutions to tackle fuel poverty and includes the provision of both CERT eligible measures and additional actions that do not qualify as follows:

CERT eligible measures include

- Cavity wall and loft insulation

Non CERT qualifying measures

- Non CERT Heating systems and repairs
- Household income maximisation activity

From the initial launch in 2001, EDF Energy has consistently provided funding over and above the contributions normally provided for the CERT measure alone, which has been key to the impact of the programme in contributing to the main management costs of the LWZ programme as follows: -

- Contribution towards LWZ team core costs staff, administration costs etc.
- Door to door assessments that are too costly to use in CERT schemes where energy efficiency is the only focus
- Income maximisation via benefits checks in partnership with the Greater London Authority, where customers are assisted throughout the whole process including the claiming the benefits.
- Additional insulation grants to household who at high risk of fuel poverty but do not qualify for CERT or Warm Front grants

It would be reasonably straightforward to interrogate the income and revenue streams from such a project to separate out spend delivering additionality to existing, funded programmes for inclusion in the supplier programmes of social spend.

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 agree with this approach, although it highlights the inconsistency we referred to in question 7 above, where our administrative costs are only eligible if they relate to industry projects. We would also wish to highlight that as energy suppliers working within an intensely competitive environment and therefore very mindful of costs, we would always ensure that projects we participate in are efficiently run, and that all costs offer excellent value for money.

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

We agree that the framework already agreed with BERR, representing a level of spend based on market share as an amount per gas and electricity customer account, is the best way to ensure a 'level playing field' between suppliers.

We are disappointed, however, that Ofgem have disagreed that there should be any flexibility in delivering the programme of spend, particularly in terms of the ability to carry forward some under or over spend. There is an even stronger case for this with the proposals outlined in this consultation which makes it clear that we will not be certain as to how much more we have to spend until the baseline is agreed in September 2008, leaving us very little time to correct any assumptions. Our experience in previous programmes has also been that such flexibility has proved particularly useful, and rather than result in delayed investment has helped facilitate early cost effective investment which can subsequently be carried over. To have an overly rigid system may actually prevent certain incentives from going ahead because the relevant budget for that year has already been reached, and we wonder whether this is really in the best interests of fuel poor customers.

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

As we have previously outlined, Ofgem's exercise to assess supplier voluntary contributions in the summer of 2007 was developed for a different purpose and ruled out a number of areas of spend that we argued at the time were eligible, such as providing benefit entitlement checks and the non CERT related costs involved in Warm Zones. Such areas of spend make a real difference to tackling fuel poverty and these will need to be included from 2007/08, not simply as new areas of spend going forward, where suppliers have already been investing in such activity.

The suggestion that the analysis of the baseline, and therefore clarity on how much more we will have to contribute, will not be available until September is worrying, as this would leave us with only seven months at most to deliver that year's programme.

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

The approach described appears logical as far as we can understand it, although we are not entirely clear as to exactly what is proposed. Nevertheless, we would agree with the exclusion of fixed price products, but would also question the value of including internet products since the prices change far more rapidly than core prices. This means the information could be out of date before being published.

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

We broadly agree to the proposed approach, although we note your suggestion that you will flag to BERR any concerns that may have been raised regarding suppliers meeting their social spend targets. We assume that Ofgem would first try to resolve the issue with the supplier concerned, but would ask you to confirm that this is indeed the case.

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

We agree that a formal sign off and certification process by each company's Board will introduce a high level of rigour to the data presented and the approach taken.