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Dear Sarah

Energy Retail Association response to Ofgem's consultation on Monitoring Suppliers' Social Initiatives – proposed reporting framework

The Energy Retail Association (ERA) is pleased to provide a response to Ofgem's consultation on Monitoring Suppliers' Social Initiatives – proposed reporting framework.

The Energy Retail Association (ERA), formed in 2003, represents electricity and gas suppliers in the domestic market in Great Britain. All the main domestic energy suppliers are members of the association - British Gas, EDF Energy, npower, E.ON, ScottishPower, and Scottish and Southern Energy. Members will also be responding on an individual basis.

The ERA fully supports Ofgem's view that the main focus to tackle fuel poverty should be on raising incomes and improving housing. The ERA and its members also recognise that tackling fuel poverty is a collective responsibility for industry, Government and the voluntary sector. We believe that if the Government is to move towards achieving its fuel poverty targets it is important that policy proposals remain focused on outputs. Suppliers' social initiatives are designed to provide positive outcomes and this is a key element of our response to this consultation.

Definition of a social tariff

1. In the context of the social commitment agreement the definition of a social tariff is useful for stakeholders to assess suppliers' activity, but it should not be the measure of what initiatives come within the scope of the commitment. The principle of the commitment is to achieve the desired outcomes for alleviating fuel poverty. In this case the desired outcome is to reduce household expenditure. If a rule-based approach is applied to a highly competitive market situation it places restrictions on energy suppliers operating in that market. For this reason it is unlikely that Ofgem will reach agreement on a solution that does not offer suppliers the flexibility to adjust to external market drivers.
2. The ERA supports the proposal that a social tariff takes the form of a payment method and tariff rate that is the best option for the individual consumer. However, this should not be applied universally. For example, consumers who choose to pay online by direct debit are likely to enjoy the most favourable terms based on the suppliers' cost to serve that account. In this case a customer has chosen to assist in reducing a supplier's costs by opting for paperless billing and the simplest payment method. A social tariff that offers

- an equally low rate regardless of payment method with no cost savings to the supplier is not an equitable scheme and would require costs to be recovered from other customers.
3. In identifying what qualifies as a social tariff within the context of the social commitment Ofgem must state that the sole criterion is additional spend that alleviates fuel poverty (or potential fuel poverty). This requires an approach based on the principle of additionality rather than taking a rule based approach.
 4. It must be recognised that this policy framework is being applied to a highly competitive market. In order to ensure that the market is not distorted Ofgem must apply a price mechanism that is fair and equitable. For example, under the current framework a supplier's contribution would be based on the difference between the highest and lowest tariff offered. A supplier offering lower than average prices where the difference between the two is reduced and this would be incorrectly presented as a poor value.
 5. The ERA position is that suppliers should not necessarily equalise their social tariff with that of the lowest available for the payment method regardless of supplier on the grounds that it is unfair and unworkableⁱ. This could amount to market interference that would ultimately stifle innovation and suppliers' incentive to compete. It may also take a segment of consumers out of the competitive market and make it difficult for them to re-enter when their circumstances change. This appears to be contrary to the Government's stated agenda for financial inclusion. There may also practical considerations about how to identify how long a consumer is eligible for the social tariff rate and what option is available when this is withdrawn. The aim for all should be to assist consumers back into a stable financial position.
 6. We support Ofgem's proposal in para 2.9 that suppliers provide more clarity on social tariffs and other offers to allow vulnerable consumers or advice agencies to make comparisons. This is a more effective option than enforcing a universal tariff on all consumers that match the criteria. For example, a vulnerable person on a fixed rate tariff may be better protected than being automatically taken off that rate by a supplier who is mandated to move all their eligible customers to a social tariff.

Calculating suppliers' contributions from social tariffs

7. The ERA believes that a supplier's contribution should be calculated on the outcomes for the consumer. This means that the methodology must be consistent but cannot be prescriptive. For example, where a tariff is designed for a specific customer segment it may not meet all Ofgem's qualifying criteria but the benefit to the recipient will be equivalent to but not the same as other social tariff benefits. For example a lower tariff rate individually may be agreed by the supplier for customer in specific circumstances to encourage them not to limit their energy use because it could affect their health. These circumstances may not qualify as an official social tariff but should count as part of the social commitment. It is not appropriate for suppliers to make their own estimates of savings when calculating their contributions because there needs to be parity in this assessment. It is also possible that some suppliers could be at a competitive disadvantage if self-assessment creates additional cost.

Including rebates towards suppliers' social spend targets

8. The outcome of a rebate is a reduction in a person's energy bill, primarily during the winter months when heating costs are higher. We are aware that some respondents do

not consider that a rebate constitutes a social initiative. However, the Government often cites its own Winter Fuel Payment as a measure to relieve fuel poverty. This provides a similar outcome as a winter rebate. Therefore, we agree with Ofgem that rebates should continue to be assessed as part of suppliers' social initiatives.

Proposed approach to suppliers' prepayment tariff equalisation policies

9. As stated by Ofgem in para 3.16, a quarter of prepayment meters users are in fuel poverty. Consequently, we agree that equalisation of prepayment meters should be recognised as a fuel poverty measure. In order that suppliers are accredited only for those pre-payment users who are eligible for social assistance Ofgem should devise a method of measuring the number of cases where a supplier is providing an equalised prepayment tariffs to low income and potentially fuel poor households.
10. The ERA welcomes the increased level of policy discussions about interrogating Government data to improve energy suppliers' efforts to target fuel poor households. We support further work in this area, particularly where this allows suppliers to run schemes such as the winter mail out in a way that is cost effective.

Calculating suppliers' contributions from trust funds

11. The ERA disagrees that spend by trust funds is a more representative measure than the sums committed to the trust fund. Suppliers' trust funds are independent and have set up in such a way that donations include a contribution for administration, as would be the case if suppliers were to fund a CAB project. Where the trust fund in question is an independent charitable trust, the supplier will have no control or influence over how the money donated is spent by the Trust. If only the amount of the donation that the trust fund awards is included, then this would mean that Trust Funds would present very poor value for money for suppliers as several hundreds of thousands of pounds of donations would be ineligible, and this could make them far less attractive than, for example, a similar donation to the CAB for a debt initiative. Therefore, the true contribution from the supplier is the amount donated to the fund. This approach will ensure that the spend is targeted effectively at the fuel poor and not just spent to facilitate achieving the target.

Approach to other categories of spend

12. In our view it is important to provide a complete picture of the help that energy suppliers provide to their vulnerable and low income customers.
13. The ERA supports Ofgem's proposal to include other categories of expenditure in its assessment of social initiatives. We consider that operational, administrative and delivery costs should be included and put against suppliers' total spend. This should include internal training and education initiatives as well as outsourced campaign activity with third party organisations. In recognising the full range of initiatives available from energy suppliers and accrediting them appropriately Ofgem is rewarding and encouraging further innovation, as well as acknowledging existing services some of which are provided at cost by suppliers own specialist teams.
14. We fully support Ofgem's proposal on energy efficiency as set out in para 5.14 to include energy efficiency spend where it is additional to suppliers' statutory obligation under CERT. The Government accepts that the CERT Priority Group is not a proxy for fuel poverty. In fuel poor homes the energy efficiency measures installed by suppliers are more likely to result in comfort taking than carbon reduction. Therefore, an improvement

in living standards is additional to the carbon reduction objective that CERT seeks to achieve and is not double counting. In light of this we would ask Ofgem to take this into consideration when assessing whether CERT activity in fuel poor households is additionally accreditable as a fuel poverty measure under the social obligation as well as against CERT as a carbon reduction measure.

15. With regard to the efficacy of energy efficiency measures presently suppliers are required to notify Ofgem of all installed measures and for scrutiny and these are subject to regular on site quality testing.
16. On debt advice and debt prevention as set out in para 5.16 some suppliers work specifically with third parties, such as Citizens Advice and the Money Advice Trust to target help for fuel poor households. The ERA suggests that support to third parties that results in similar outcomes to benefits entitlement checks – as set out in para 5.11 – should be included within the scope of suppliers' social obligations. Given the preventative nature of this type of initiative, it is likely that some activity would be discontinued or scaled down if Ofgem ruled that it was not permissible to qualify under the social commitment.
17. We also suggest that if an activity would not form part of an energy supplier's daily operations e.g. funding an advice line as opposed to contracting a debt recovery agent, the operational, administrative, awareness raising and delivery costs should be accountable against the social budget. For this reason we support the proposed inclusion of funds for the Home Heat Helpline and winter pilot schemes to be drawn from the social obligation. Contrary to the views expressed in para 5.22 there is a natural business incentive to keep down the costs of such schemes and provide value for money. This prevents indebtedness and increased numbers in fuel poverty, which is ultimately an additional cost to suppliers.
18. The ERA specifically requests that the Home Heat Helpline is given due consideration for total funding through the social obligation. The Home Heat Helpline is the only dedicated helpline targeted at fuel poor consumers. The Home Heat Helpline budget is due to end this summer according to the conditions set out to Government at its launch. The success of the helpline has in part been due to the recognition afforded by Government. Without this and the subsequent running costs that would be provided from the social obligation the helpline is not a viable option for the future. As testament to its success the ERA continues to receive significant numbers of callers each week. In order to inform Ofgem's decision on eligibility the ERA would be happy to provide additional confidentially commercial evidence of the Home Heat Helpline operations.

Calculating suppliers' contribution

19. The ERA is unable to comment on the split of expenditure over the three year programme. However, we advise Ofgem to consider the experience of energy suppliers when they were delivering the Energy Efficiency Commitment in previous years. Energy suppliers were required to adjust their activity in response to prevailing markets and there was a distinct stop/start experience between EEC1 and EEC2. This resulted in suppliers ceasing all activity when they had reached their EEC target and resumed activity when the targets took effect. In this example service providers such as insulation installers were left without work for periods and then struggled to ramp up when suppliers reinstated contracts for the new targets. If this scenario was repeated on social

activity it would need to be managed by Ofgem and other stakeholders. By allowing spend earmarked for future years to start early, it could stop situations where customers who are in need are not able to access a supplier's tariff because of a cap in terms of spend or customer numbers has been achieved. If such a situation occurred it may mean that customers might be turned away, this could create adverse publicity for Ofgem, Government and suppliers.

20. We would also welcome further explanation of the comment in para 6.9 that “target spend level may be revised for 2008 – 11”. Does this mean that the commitment given by suppliers and announced in the budget is subject to change?

Overall pricing strategies

21. As stated in this document at para 5 of this document in respect of fixed rate tariffs, it is not always possible to draw conclusions based on absolute positions. The fact that energy suppliers provide a range of different offers makes it difficult to draw comparisons, but should not be discouraged.
22. The ERA is unable to offer comments on suppliers' individual pricing strategies. However, we would advise that Ofgem reconsider some of the assumptions used in its methodology to compare suppliers' initiatives. For example, there must be a rationale to the assumption in para 7.6 that customers take both electricity and gas from the same supplier. We would suggest that for a significant proportion of fuel poor households in rural areas and in pensioner households this is not the case.

If you have any questions please do not hesitate to contact me. Yours sincerely,

Russell Hamblin-Boone
Director of Corporate Affairs
Energy Retail Association

This is the policy adopted by the ERA, but it is not a position shared by all our members. Suppliers will provide further views in their individual responses to the consultation.