NEW NCC START UP TEAM
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Maxine Frerk
Director, Governance, Consumer & Social Affairs
Ofgem
9 Millbank
SW1P 3GE

Dear Maxine,

Re: Monitoring suppliers' social initiatives – proposed reporting framework

The newNCC welcomes the opportunity to provide comments on this matter. Our response is non confidential and we are happy for it to be published on Ofgem's website.

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

As stated in our response to the open letter on 6 May, the newNCC believes that a social tariff must offer:

- additional value to those fuel poor consumers already paying by direct debit; and
- additional value, beyond price parity with online or direct debit rates, for those fuel poor consumers, who are paying higher tariff prices based on their payment type (e.g. prepayment meter, weekly payment, standard cash / credit).

Therefore we do NOT agree that the definition of a 'social tariff' should include:

- A set discount off eligible customers' tariffs (unless this discount reduces the customer's annual bill to a rate equivalent to the supplier's current least expensive tariff).
- A tariff that is equivalent to a suppliers' direct debit tariff (if the direct debit rate is more expensive than the supplier's online or other currently available tariff).
- A fixed bill tariff for one year regardless of consumption in that year (if the fixed bill tariff is more expensive than the price a consumer would have paid on that supplier's online tariff for the same consumption).

We agree with Ofgem's view that the definition of a social tariff should be revisited if the probe requires changes to payment differentials.

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

Yes in principle.

It is important that the breakdown is based on:

- average annual consumption of consumers on social tariffs;
- the prices paid or the benefits delivered to consumers across all payment types, including direct debit.

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

The newNCC believes that introducing an external benchmark of the cheapest available tariff would add further complexities. Please see our answer to Question 1 for our views on the definition of a social tariff.

A social tariff must offer savings to the consumer over and above what they could achieve through changing their payment method e.g. switching from their supplier's normal direct debit deal to its online direct debit deal.

However, we agree it is reasonable to exclude multi-year fixed or capped price deals, which typically attract a premium over 'standard' prices at the time of their launch. These tariffs are only likely to appear in a list of suppliers' lowest cost tariffs in the years after their launch e.g. by offering 2006 prices in 2008 .

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

Yes. However, it is important to distinguish between rebates that will have a significant impact on reducing a fuel poor household's annual bill, while others will have a more negligible impact. Therefore it is important that the overall value of the rebate, as a price support, is placed in proper context regarding its impact on individual households.

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?

We believe that trust funds provide important benefits to consumers. They form an important part of a supplier's wider debt management policy by offering write-offs to indebted consumers or funds to organisations providing debt advice.

The newNCC believe there is merit to understanding how much a supplier spends on additional initiatives such as trust funds or specialist funding for CABx workers, etc. However, this spend should be viewed and assessed separately from a supplier's spending on social tariffs and rebates, which directly affect the actual energy prices paid by fuel poor households.

As a result we do not agree with Ofgem's proposal to include trust funds as part of suppliers' social spend.

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?

The 2008 Budget proposals stated that:

> *There is common agreement on the need to do more. Energy companies currently spend around £50 million a year on social tariffs; the Government would like to see that figure rising over the period ahead to at least £150 million a year.*

The growing number of households in fuel poverty means it is essential that the additional £150 million is spent on initiatives that will have a direct impact on the annual bills of fuel poor households - social tariffs or rebates.

As a result we do not agree with Ofgem's proposal to include categories of spend beyond social tariffs and effective bill rebates.

Regarding the other categories identified by Ofgem:

Benefit entitlement checks (BECs): The cost of BECs should be borne by the Government, with suppliers supporting the referral process.

The success criteria for a BEC should be based on level of benefits subsequently received by the household, not the level of benefits identified during the review. If Ofgem chooses to include spend on BECs, suppliers must be able to demonstrate that they have provided a value added service to the fuel poor household.

Energy Efficiency Initiatives: There is a real risk of double counting associated with Ofgem's proposals in paragraph 5.12 to 5.14. The measures identified are an extension of the suppliers' CERT Priority Group obligations. The programmes provide valuable assistance by enabling suppliers to discharge their Priority Group obligations through securing access to hard to reach low-income households. We do not believe a sufficient case has been made for the inclusion of such initiatives.

Debt advice and suppliers' debt prevention strategies: The newNCC agrees with Ofgem's views on excluding debt mitigation and debt prevention initiatives. However, we do not agree that spend on additional support for external agencies should be included, for the reasons stated in our response to Question 6.

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

The newNCC does not agree with the inclusion of energy efficiency spend, given the difficulty in separating out the existing obligations under the CERT priority group.

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 believe it would be extremely difficult for Ofgem to determine the level of efficient administration costs. We would urge caution about the inclusion of any further costs in this area.

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

Yes. We believe that a carryover for shortfalls is appropriate, in the first year, to allow suppliers to develop properly targeted price supports.

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

Yes.

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

No. Companies' pricing strategies are often fluid in nature. Furthermore, a company's overall pricing strategy is not designed to provide price supports to fuel poor customers; it is designed to attract new customers. Should fuel poor customers be 'assisted' as a result of a pricing strategy that is simply an unintended benefit, associated with a company's desire to grow its overall customer base.

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

Yes, although Ofgem should give strong consideration to providing half yearly updates in the early years.

It would also be useful if Ofgem could explore how it could provide further details about the impacts of these initiatives on fuel poor households.

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

Yes, this is essential to ensure data quality and accuracy.

Yours sincerely,

Ed Mayo
Chief Executive
NewNCC