

Sarah Piggott  
Consumer & Social Affairs  
Ofgem  
9 Millbank  
London  
SW1P 3GE

12<sup>th</sup> June 2008

Dear Ms Piggott

**Monitoring suppliers' social initiatives – proposed reporting framework**

The Parliamentary Warm Homes Group (PWHG) welcomes the opportunity to comment on Ofgem's proposals on permissible spend for, and the monitoring of, suppliers' social initiatives. This response is non-confidential and we are happy for it to be published on the Ofgem website.

The PWHG was established to raise awareness of the problem of fuel poverty and the policies which will eradicate it. 108 MP/Peer Members of the Group.

Yours sincerely

A handwritten signature in black ink that reads "Alan Simpson". The signature is written in a cursive, slightly slanted style.

Alan Simpson MP  
Chair of the Parliamentary Warm Homes Group (PWHG)  
[Simpsona@parliament.uk](mailto:Simpsona@parliament.uk)



# Monitoring **PARLIAMENTARY** reporting framework **WARM HOMES GROUP**

## Consultation Response

### **Question 1. What should the qualifying criteria be for a social tariff? Do you agree with the proposed approach?**

The Parliamentary Warm Homes Group (PWHG) believes that **a social tariff should, as a minimum, represent the lowest price tariff that a supplier offers**, and preferably offer a rate that is lower than any other tariff made available to the general public by that supplier. This should apply regardless of how the customer pays for their fuel or their geographical location.

Such an approach would help to ensure that fuel-poor households always pay the supplier's best price. At the very least it guarantees they are not disadvantaged in the energy market by factors which may be linked to their low income or vulnerable status (e.g. lack of access to the internet or to a bank account making them unable to take advantage of cheaper online and direct debit deals). This criterion would also benefit those barred from switching away from high cost prepayment meters to cheaper tariffs because they fell into debt.

While tariffs that are 'at least as good as the suppliers' standard direct debit tariff' can offer a saving (particularly to many prepayment meter users) they do not go far enough. They fail even to offer parity with 'fuel rich' customers who are able to benefit from online deals. Around 1 in 3 fuel-poor households already pay by Direct Debit. Consequently, would see no benefit from Ofgem's suggested social tariff definition.

Since a company's social tariff is only open to existing customers, there is no opportunity for a consumer to shop around and switch to a supplier with a better social offering. It is therefore crucial that common eligibility criteria are adopted across all suppliers. This would ensure that every vulnerable fuel-poor group has access to assistance.

The PWHG has concerns that social offerings, such as E.ON's Staywarm tariff or Scottish Power's Carefree Plus package, are only available to customers who are 60 years of age and over. There are currently 1.6 million low-income vulnerable households (those with children under the age of 5 or with a member who is disabled) on the safety net level of income but below the age of 60. Given that the Winter Fuel Payment is not available to these vulnerable groups, it is especially important that they can access best value tariffs from their energy suppliers.

The criteria used by the Department for Work and Pensions for Cold Weather Payments , based on both vulnerability and minimal household income, represent a reasonable and practical proxy for fuel poverty. It is the most appropriate of current criteria to use for eligibility for social tariffs. Effective data sharing could also then facilitate the targeting of assistance to these groups as part of a joined-up approach.

Under existing market rules there is little commercial incentive for companies to compete for low-income, high debt risk customers who have little disposable income to buy additional services. There is also no competitive market for social tariffs.

PWHG believes that the benefits to the fuel poor of a simple, standardised social tariff, would greatly outweigh the benefits of the current ‘diverse approach,’ and greatly improve take-up.

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

The PWHG welcomes the inclusion of breakdowns by payment method and believes that the use of actual average consumption data, rather than assumptions, will improve the accuracy of the analysis of suppliers’ expenditure on social tariffs.

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

The PWHG argues that a social tariff should be at least the lowest cost tariff that the supplier offers, regardless of how the consumer pays for their energy. We do not propose that it be linked to external benchmarks, but rather compared against the supplier’s own available tariffs.

EDF Energy and Scottish and Southern Energy have both successfully offered their cheapest tariff as their social tariff with a 15% and 20% discount respectively. Such an approach should be spread across the industry. It guards against any fluctuations in online prices. It also provides a clear meaningful social tariff and much greater clarity for consumers and consumer advisors.

**Question 4: Do you agree with the proposed approach to including rebates as part of suppliers’ social spend?**

Only if it has a meaningful impact on the energy bills of fuel-poor households and effectively means that recipients pay no more than the equivalent of the lowest cost tariff that the supplier offers.

**Question 5: Do you agree with including PPM equalization as part of the suppliers' social spend only where it is targeted at the fuel poor customers?**

No. While we welcome all efforts to reduce punitive PPM charges for those on the lowest incomes, the PWHG does not believe that PPM equalisation should count towards the companies' social spend even where it is targeted at the fuel poor.

While the Group supports action to address what we believe to be unjustifiably high prepayment meter charges, and the widening differential between PPM and direct debit costs, we believe that this issue is best addressed via Ofgem's current energy probe and consequent better regulation. This should provide fairer prices for all PPM consumers, not just the fuel poor. This is particularly important as recent research from the National Housing Federation estimates that the average annual income of PPM users is just £16,000.

However, a social tariff which was the lowest cost tariff a supplier offered, regardless of how the consumer paid for their fuel, could effectively help address this concern for the poorest and most vulnerable PPM customers.

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

No. The PWHG recognises the potential benefits that trust funds can offer to many households in financial difficulty but does not believe they should be included as part of the company's fuel poverty spend.

The Group believes that the social spend should be targeted towards improving the affordability of energy tariffs for the country's poorest and most vulnerable gas and electricity consumers.

Trust funds tend to assist households who are struggling with energy debt - either directly through the award of debt write-off, or indirectly through sponsoring the provision of advice by third party agencies.

The PWHG supports energywatch's view that whilst acknowledging that up to half of trust fund grant recipients could be fuel poor, trust funds should be an integral part of best practice in debt management, rather than fuel poverty initiatives.

**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?**

While the PWHG strongly believes that a social tariff should form part of an energy assistance package that could address all three fuel poverty drivers (price, income and energy inefficient housing), we do not believe that the proposed measures should count towards the companies' fuel poverty spend or necessarily be wholly provided by the supplier.

The 2008 Budget, which outlined the intention that all suppliers would treble their spending, clearly implied that additional monies would be spent on social tariffs:

“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.”

At a time when there is such a strong link between high energy prices and fuel poverty, PWHG believes that it is crucial that this original focus be maintained.

Moreover, lack of a coherent structure and objectives, have been historic failings in domestic energy efficiency initiatives in the United Kingdom. Adding to the complexity of provision of energy efficiency measures is unhelpful; particularly at a time when there is growing recognition that what is needed is to move away from the current patchwork provision towards a simpler single national energy efficiency scheme to be systematically rolled out at a local level.

**Providing a joined-up approach, by linking the provision of a social tariff to priority group customers within CERT, could serve as a model of good practice for replication by any company providing an essential service.** In the case of benefit entitlement checks, it may be argued that this is a Government responsibility and that the Department for Work and Pensions (DWP) should fund this work. There are also strong arguments against using consumers' money to patch failings or design flaws in other programmes.

However, as in the case of trust funds we agree that it will be helpful if Ofgem continues to monitor and report on these complementary activities to provide a full picture of industry initiatives to support vulnerable consumers.

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

The PWHG strongly recommends that Ofgem should not adopt this approach. We are doubtful that true additionality can be calculated. There is already a plethora of schemes available targeted at improving energy efficiency. These include Warm Front, Warm Zones, CERT, Low Carbon Buildings Programme, Landlord's Energy Saving Allowances, the Decent Homes programme, and the Housing Health and Safety Rating System. **The priority should be to make existing provision as efficient and effective as possible.**

While a whole range of agencies and businesses can work to improve energy efficiency, only energy suppliers (whether voluntarily or as part of a mandatory commitment) can provide more affordable energy tariffs. Given the direct link between high energy prices and fuel poverty, it is essential that Ofgem and the Government focus suppliers' fuel poverty spending on compensating for the failings in the competitive market. Ofgem should ensure that the poorest and most vulnerable customers get the lowest cost tariffs a supplier offers.

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

If the DWP shared data, regarding eligible recipients of Cold Weather Payments and suppliers, adopted this same eligibility criteria for the recipients of their social tariffs, administration costs associated with targeting assistance could be greatly reduced. Under such a scheme, we would support the inclusion of efficient administration costs. We have some reservations if energy efficiency measures are to be included; especially when there is no clear calculation of their impact on fuel poverty levels and arguably little incentive to improve efficiencies.

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

We support the approach proposed, although clearly our view is that additional funding should be primarily allocated to social tariffs. If meaningful rebates are built into this process it does, though, have implications for establishing and revising any baseline expenditure figure.

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

As stated, the Parliamentary Warm Homes Group believes that a social tariff should, as a minimum, represent the lowest tariff that a supplier offers, and preferably offer a rate that is lower than any other tariff made available to the general public by that supplier. This should apply regardless of how the customer pays for their fuel or their geographical location. However, we accept that the kind of tariff analysis proposed by Ofgem for analysing and comparing company performance is useful if existing arrangements continue.

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

Possibly. We do think, however, that monitoring and reporting should record facts and figures about the extent to which social initiatives actually contribute towards alleviating fuel poverty. We believe that ‘eradicating fuel poverty’ should be a primary duty for Ofgem, in line with the government’s own statutory duty to do so.

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

Yes.

**Ends**