

MONITORING SUPPLIERS' SOCIAL INITIATIVES

ANNEX

CHAPTER 2

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

We agree that the qualifying criterion for a social tariff should be that it is at least as good as the supplier's standard monthly direct debit tariff. It is important to distinguish this from quarterly direct debit or similar payment methods, which may be more expensive to the customer. In addition we agree that it is valid that the social tariff should be delivered via one of the four methods outlined in the framework. In the case of the first method – a discount – the criterion needs to apply at the demand level of a typical customer.

We agree with Ofgem's view that prescribing strict qualifying criteria for social tariffs, and other initiatives is not appropriate, in that it will reduce incentives on suppliers to innovate and develop programmes that provide the most appropriate help to vulnerable customers. Using online tariffs as the benchmark for social tariff offerings is not practical, given the differing costs to serve online customers and the unique nature of online offerings. Online tariffs tend to be largely transitory and therefore are not suitable for providing a meaningful comparison with social tariffs.

ScottishPower is fully engaged with BERR and the Department for Work and Pensions (DWP) with the aim of delivering an appropriate data sharing model that can assist suppliers in developing social initiatives. We are keen to ensure that this model is not limited to providing assistance for developing social tariffs only, as we do not believe that this fully supports the aims of the increased spend proposals. However, we agree that if the discussions between DWP and suppliers result in changes to the definition of social tariffs within the framework, this can only be considered once those discussions have completed and all outcomes assessed. This must also be true of all other categories within the framework.

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

We are comfortable with the previous approach for calculating suppliers' contributions from their social tariffs by reference to an average consumption assumption. We doubt if the complexity and difficulty in predicting spend levels introduced by the proposals to change the assumptions used (to rely instead on actual data from suppliers of average consumption levels for customers on their social tariffs and across different payment methods) are worth the benefits.

The exception might be in the case that suppliers wish to specifically target customers with higher than average consumption, for example in the context of data sharing. In this case it may be sensible to use actual consumption levels.

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

As a short term measure the introduction of a social tariff may help alleviate fuel poverty for some households. However, in the long term, competition should dictate

the fuel prices customers pay. The market provides a range of tariffs and products for domestic customers and they are free to move between tariffs and companies to ensure they secure the best deal.

We note the suggestion that a social tariff should be the lowest available for that payment method regardless of supplier. Ofgem is correct though in recognising the practical issues that would be presented as a result of this option, for both the customer and the supplier.

Concerns relating to a 'universally priced' social tariff are relevant, particularly that such an offering would have the undesirable side effect of removing a segment of consumers from the competitive market. This could result in a stagnant pool of customers that are not empowered in contracting for their energy supply.

For suppliers, such an approach could prove problematic in that it does not recognise the practical aspects of individual supplier's operational models and cost bases.

CHAPTER 3

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

Yes we agree that rebates should continue to be recognised within the framework going forward. We continue to see a value in rebates as a measure to provide help to particular customer groups and do not believe that these should be sidelined in favour of social tariffs. Both rebates and social tariffs offer the same short-term benefits in addressing fuel poverty, by providing a small measure of financial relief, akin to the Government's own Winter Fuel Payment. We agree with Ofgem that a 'toolbox' of options, for suppliers to choose from in designing their social offerings, is more desirable and that rebates should be included within this 'toolbox.' Rebates are usually made as a one-off payment and therefore we believe that these are unlikely to have any real impact on customer switching, other than generating customer loyalty, as is the potential with any other social initiative.

An option, which is not considered within the framework, is the treatment of 'avoided costs' for consumers, such as a price freeze or other costs that the consumer would be expected to pay, but which the supplier will instead absorb. Provided that this is targeted at an appropriate group of customers, Ofgem should consider how this would be reported on within the framework. While not directly considered as a rebate, this could prove to be another useful tool for suppliers to use to provide assistance to customers under the scheme.

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 agree that prepayment (PPM) is not always the best proxy for identifying fuel poor customers. The key value in PPM is providing customers, particularly with the transition to smart metering, with a robust Pay As You Go payment method, helping to keep customers in control of their consumption and reduce the risk of debt.

In light of this we agree the proposed approach that PPM equalisation should only be included as part of suppliers' social spend where it is specifically targeted at fuel poor customers. Even where it is so targeted, only the equalisation costs beyond the point

of cost reflectivity should count, as otherwise suppliers who currently charge very large differentials would benefit disproportionately.

CHAPTER 4

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

We agree that supplier contributions to trust funds, whether providing funding directly to individuals or to projects, should qualify towards the social spend target.

We recognise Ofgem's rationale in calculating supplier's contributions based on the amount of money spent by the trust fund in question in the relevant period. However, we do not agree that this adequately recognises the actual contribution from the supplier. Where the trust fund in question is an independent charitable trust, governed by the applicable trust law, as in the case of the ScottishPower Energy People Trust, then the supplier will have no control or influence over how or when the money donated is spent by the trust. Therefore, the true contribution from the supplier is the amount donated to the fund, which is deemed as spent as per our accounting and auditing practices.

This approach will ensure that spend is targeted effectively at the fuel poor and not just spent to facilitate achieving a financial output target. In instances where funds have a surplus they should demonstrate that any carry over of that surplus into the next accounting year is underpinned by an active and appropriately scaled programme of activity that will ensure that the money is spent in a reasonable timescale. If the approach proposed within the consultation is taken, it will be very difficult for suppliers to guarantee the delivery of the first year's target other than by giving a rebate to whatever group of customers they can identify, in the time available, as potentially being in fuel poverty. This is unlikely to be efficient spending.

CHAPTER 5

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 welcome Ofgem's approach to achieving a diverse range of social offerings and fully commend the intention to allow the framework to support a range and variety of initiatives, including partnership and other initiative spend and spend on Benefits Entitlements Checks (BECs). But we still believe that there is scope to widen the framework, to capture a diverse and balanced portfolio of initiatives to assist vulnerable and fuel poor customers. In looking at schemes to assist the fuel poor, any scheme that aims to tackle one or more of the root causes of fuel poverty should be considered eligible for the framework. Our recommendations for developing the framework in this way are set out below.

An alternative, or supplementary, approach could be to allow individual schemes to be considered on their own merit. Ofgem could establish a mechanism whereby suppliers could present 'innovative pilot programmes' to Ofgem at appropriate points throughout the year. Ofgem could 'approve' the programmes, provided that it can be clearly demonstrated that the scheme would address one or more of the causes of fuel poverty or seeks to improve the identification and targeting of fuel poor

customers. Approved programmes could then be included within the framework as qualifying spend. This will further encourage innovation and competition between suppliers while providing maximum benefits for customers.

It is currently not clear which 'other' initiatives have been counted as approved spend under the previous monitoring framework. We would welcome further clarification from Ofgem on the 'other' qualifying initiatives previously counted as being provided by suppliers, in order to provide an appropriate baseline for other categories of spend going forward.

- **Energy Efficiency Initiatives:** Energy efficiency is a key component of fuel poverty and therefore initiatives that are targeted at improving energy efficiency, that are additional to suppliers' statutory obligations, should be included within the framework. We recommend that the provisions of value added services in established CERT activity areas, such as the provision of a benefit entitlement checks, crisis funds, or top up to Warm Front grants should qualify for inclusion within the framework. Additional energy efficiency initiatives sponsored through independent Trusts, or which involve trialling new energy efficient technologies, which do not gain credit under CERT, should also qualify.
- **Debt Prevention Initiatives:** We recognise Ofgem's view that debt mitigation and prevention initiatives will form part of supplier's regulatory obligations or otherwise be provided to customers as part of overall customer service. At ScottishPower we aim to provide a sympathetic, fair service for all customers who are in debt and / or facing disconnection and seek to provide first class debt mitigation and prevention as part of our overall customer service. However, given that an overall reduction in debt levels can play a valuable role in addressing fuel poverty, we believe that there is still scope to include additional debt prevention and advice services within the framework. For example, a wider debt prevention advice service addressing the customer's broader financial issues is not something a supplier would normally offer and therefore is providing social help over and above the supplier's ordinary activity. In this case we believe that this should qualify for inclusion within the framework. In the same vein, where suppliers fund external debt mitigation initiatives, for example through the Citizens Advice Bureau or Money Advice Trust, this should count towards spend initiatives.
- **Operational Costs:** Given the significant increased investment that suppliers will be making in providing social initiatives over the next three years, it will be important to consider the additional operational costs associated with providing the initiatives. Additional delivery costs, which may not otherwise have been incurred by the supplier, are an integral part of providing the overall increased benefit to customers and should therefore count (at least in part) towards the supplier's spend total.

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

Any spend on energy efficiency measures that is not claimed by suppliers as CO₂ savings towards their CERT target or as part of their regulatory obligations to provide advice to customers, should be included within the social spend target. This will provide the opportunity to deliver innovative energy efficiency solutions to homes that are hard to heat, that are not currently captured under the CERT target or elsewhere.

Measures provided under the CERT obligation are measured by CO₂ savings and independently audited. Conversely, the measurement under the social initiative target will be the amount of money spent on energy efficiency measures. A supplier should not be able to claim spend for measures that CO₂ savings have been claimed for under the CERT obligation.

In addition, suppliers may undertake energy efficiency initiatives that are over and above their obligations to maintain a free energy efficiency information service, such as sponsorship activity or energy efficiency promotions. Again, any spend here that is not claimed as an activity under the supplier's Licence obligations should be permitted to be included as energy efficiency spend under the framework. This could be affirmed as part of the proposed assurance methodology.

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

Yes, we agree that administration costs, where they relate to specific projects involving joint working across industry, should be included within the qualifying framework. In addition, we believe that the scope of 'qualifying' administration costs should be broadened to include all reasonable additional administration costs associated with delivering both joint programmes and supplier's individual programmes.

Even if run of the mill administrative costs are to be excluded, there is a risk that a blanket exclusion of individual supplier costs will make it unattractive for suppliers to follow options such as data sharing which have a high proportionate administrative cost but potentially much better targeting. As a minimum, we think that Ofgem should be able to score efficiently incurred excess administrative costs in this category.

In addition, excluding efficient administration costs associated with individual supplier programmes would mean that schemes with high administration costs but no direct financial benefit to the customer would not be eligible for consideration under the framework, despite them providing other real, tangible benefits to customers. For example, providing dedicated support staff for vulnerable customers, such as Community Liaison Officers, to provide help and advice on a range of issues in relation to their energy bill could provide an excellent source of support for vulnerable or fuel poor customers, but (depending on the definition of administrative costs) this scheme could not be included under the framework if efficient administration costs are excluded.

CHAPTER 6

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

ScottishPower agree that supplier's share of the collective spend will be calculated by reference to their market share based on customer account numbers used for CERT. We are however disappointed that the recommendation of providing a flexible timeframe for achieving the output for spend targets has not been agreed to.

In particular, where the supplier programmes are progressing effectively, but fail to meet the spend target in a particular year, it is reasonable to allow an element of

carry forward – so long as the total target for the three years is delivered within the timescale – rather than require inefficient spending to meet the year end date. This flexibility has been available under the CERT programme and has proved to be effective in maximising overall efficiency and providing greatest benefits to customers.

Conversely, where suppliers overspend in a particular year, due to the success of a specific initiative, this overspend should be allowed to be deducted from the following year's spend target. This will reflect the commitments made by suppliers and the recognition from Government that the increased investment is significant and sufficient over the forthcoming three-year period.

This flexibility is especially important in the first year, which has both the sharpest proposed increase in spending and the shortest time to develop the full suite of programmes, given that the framework has not yet been finalised.

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

Further clarity is required on the proposals for revision of the baseline, and by association, the target spend levels for 2008-11. While the logic for a system to prevent a major existing expenditures being discovered and offsetting the target is sound, there is a strong case for a materiality threshold to avoid constant adjustment and the risk that small but valuable programmes are lost. If adjustments are made, there is a possible distortion whereby the benefit of discovering an existing programme goes to the supplier concerned, but the costs of the higher target are shared by all suppliers. Targeting the extra cost to the supplier concerned would avoid this, but at the cost of increased complexity.

CHAPTER 7

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

ScottishPower welcomes the approach to include analysis on suppliers' overall tariff and pricing strategies, in recognition that this provides an overall benefit to customers, in particular those who are vulnerable, fuel poor or hard to reach. A competitive pricing policy in which the market provides a range of tariffs and products for domestic customers and they are free to move between tariffs and companies to ensure they secure the best deal, will provide the greatest benefits to customers overall.

Online products and fixed or capped price deals should not be used for comparison purposes in this context, as these are unique in nature and will not provide robust, reliable comparisons. Ofgem have previously acknowledged this in the consultation document and we welcome a consistent approach to this, so that such deals are not used for comparison purposes within the framework.

As noted above, industry average consumption levels should be the measure used for comparison calculations, to avoid unnecessary complexity.

CHAPTER 8

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

ScottishPower agrees in principle that new framework, once finalised, will be used to report on suppliers' social programmes for 2007-08 and future years. We believe that this exercise will provide a valuable insight in to the reporting process for future years. In addition, we hope that the reporting process going forward will enable any issues or learnings to be addressed effectively. We would welcome the opportunity to maintain an open dialogue with Ofgem in relation to the monitoring framework going forward. For example, if there was to be a shortfall in meeting the spend targets for any reason, it would be valuable if Ofgem and suppliers could discuss this, and see what could be done to address this before any further action was to be taken.

We acknowledge that the joint questionnaire issued by BERR and Ofgem will continue to be the mechanism used to gather information on suppliers progress towards their social programmes spend target. We agree that it is important the format and content of the questionnaire be reviewed and revised to ensure that it is relevant and fit for purpose going forward.

We recognise the value of the inputs-based approach in terms of reaching the social spend target. However, reiterating our position in relation to Question 10, we are keen to ensure that the Government's aim of targeting spend effectively at vulnerable customers is met. To this end, where money is paid into independent trust funds, it should be counted as a contribution at this point, rather than when the fund disburses the sums in question. This is, of course, provided that the trust or fund can demonstrate an active appropriate scaled programme of activity that will spend the money on a reasonable timescale. With an input-based model flexibility will be key in ensuring that spend is targeted effectively and not spent simply for regulatory compliance purposes rather than the purpose for which the target has been designed.

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

We agree that the increased scale of spend in this area warrants sign off from the Retail Managing Director before the figures are submitted to Ofgem. It is not appropriate for this responsibility to sit with the Executive Board or other main company Board, when the spend is to be incurred by the Retail arm of the company and the scale of the expenditure is not material in overall company terms. We agree in principle that the Retail Managing Director should provide assurance that reasonable efforts have been made to ensure social spend has been targeted effectively at fuel poor customers and those vulnerable to fuel poverty. These efforts will have to bear in mind the current context in which we are delivering programmes, for example, the lack of robust data on the identification of fuel poor customers.

We do not believe it is necessary to provide a separate assurance that social programme cost has been incurred efficiently. Delivering cost effective programmes is central to all activity suppliers undertake and fundamental in a competitive marketplace. Our business practice to deliver cost effective programmes will remain a key feature of the delivery of all new social initiatives.

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