



ScottishPower

London Office

1st Floor
85 Buckingham Gate
London SW1E 6PD

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

Direct Dial 020 7651 2012

rupert.steele@scottishpower.com

17 June 2008

Dear Sarah,

Monitoring Suppliers' Social Initiatives – Proposed Reporting Framework

ScottishPower is pleased to take this opportunity to respond to the above consultation. We are fully committed to the development of an appropriate monitoring and reporting framework for suppliers' social initiatives and recognise the work that Ofgem has put into developing a system that is workable and appropriate for the purpose.

We are broadly supportive of the proposals and methodology behind the framework as a measured and sensible approach to what could potentially be a complex area. Consistency in the treatment of supplier programmes is essential in allowing fair, representative comparisons to be made. However, we still believe that the framework remains potentially narrow in scope and that the opportunity remains to encourage further innovation and diversity in programmes to help the fuel poor.

Our detailed comments on the specific proposals for the framework and the consultation questions are set out in the Annex to this letter, but I would like to take this opportunity to draw out the following key points:

- **Target 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.
- **Spending Timeframes and Trust Funds:** The combination of measuring expenditure by Trust Funds rather than payments to them, combined with a lack of between-year flexibility, will make it difficult to meet the targets accurately as suppliers do not control the amount spent by independent

ScottishPower Corporate Office, 1 Atlantic Quay, Glasgow G2 8SP
Telephone 0141 636 8200 Fax 0141 636 4580

Scottish Power Limited Registered Office 1 Atlantic Quay, Glasgow G2 8SP
Registered in Scotland No. 193794 Vat No. GB 659 3720 08

funds. Furthermore, it will make it difficult for us to meet the first year spending target other than by giving a rebate to whatever group of customers we can identify, in the time available, as potentially being in fuel poverty. Such a crude approach is likely to be less effective in addressing fuel poverty than building up a social tariff more slowly, and making a balancing payment in to the trust fund to hit the year 1 target. We would urge you to look again at counting payments into a trust fund (which in accounting and auditing terms are counted as spent), where the trust is not controlled by the supplier and has realistic plans to spend the money within a reasonable timescale.

- **Assurance:** We suspect that proposal to get the Company Board to sign off on the figures and on the proposition that the spend has been efficiently incurred and effectively targeted at fuel poor customers and those vulnerable to fuel poverty is not practicable. It is unreasonable to expect the Board to review the position of a £10 million programme in sufficient detail and, given the difficulties in targeting fuel poverty, it will be impossible to assure that the targeting has been effective. If any certification is to be undertaken, it should be at the level of the managing director of the retail business and in terms of having used reasonable efforts to achieve effective targeting.
- **Administrative costs:** We think it will be necessary to have more flexibility on administrative costs than is suggested in the paper. 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.
- **Targeting Innovation:** We fully support Ofgem's assertion that suppliers should be encouraged to innovate and compete in this area. It is therefore appropriate that Ofgem's framework captures initiatives beyond rebates and social tariffs to enable this innovation and allow supplier to develop 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.

We look forward to continuing to engage with Ofgem and other key stakeholders, with the aim of securing a workable framework for monitoring suppliers' social initiatives. In the meantime, should you wish to discuss any of the information contained within our response, please do not hesitate to contact me, using the above details.

Yours sincerely,



Rupert Steele
Director of Regulation