Monitoring suppliers' social initiatives – proposed reporting framework

Response from Scottish and Southern Energy

Since the energy supply industry announced with Government that it will contribute £150 million to alleviate fuel poverty, this process of monitoring suppliers' activity has to take an entirely different form to the reviews undertaken by Ofgem in summer 2007. £150 million of expenditure is significant and the signatories to that agreement are rivals in a fiercely competitive market. SSE understands that 'regulating' a voluntary agreement is an unusual process for Ofgem; nevertheless, there are implications for the wider market if this voluntary expenditure is not shared equitably and fairly.

There should be nothing in this framework that has the potential to distort competition. However, the framework must ensure that initiatives put in place by suppliers aim directly at the core objective – helping fuel poor households at a time when energy prices are increasing.

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

The definition of a 'social tariff' is important. We cannot accept the current definition where the minimum requirement for a social tariff is to be "at least as good as the direct debit tariff". We believe this is a case of 'the lowest common denominator' prevailing. Direct debit is the most popular out of the three main payment methods for fuel poor customers. To classify a tariff as 'social' just because a tiny proportion of 'costs to serve' are subsidised to a small extent lacks credibility. The only people who would be removed from fuel poverty would be those who were at the margins of the definition in the first place. And a large proportion of people living in fuel poverty (but happen to pay by direct debit) not only receive no assistance – but have no hope of receiving assistance either. We believe there is little 'social' about such a tariff; it is nothing more than a label.

Above all else, we believe it is this definition that undermines the credibility of the framework.

SSE believes that a 'social tariff' should be the lowest tariff a supplier has on offer and thus, Britain's poorest customers should be able to access Britain's cheapest energy prices.

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

Yes, we welcome the suggestion that assessing the value of a supplier's social tariff should be judged against the lowest available for that payment method regardless of which supplier that customer is with. This is an important 'check and balance', and without it, high priced suppliers effectively get rewarded for those high prices.

SSE would strongly oppose any notion that the 'value' of an apparent spend by a supplier is simply a calculation between the supplier's own 'before and after' tariff. In such a case, suppliers could simply increase all prices in order to appear to be spending more on the fuel poor. There must be a mechanism that provides a 'price sense check'. This is in the best interests of fuel poor customers.

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

We believe any approach that is comparing tariffs over time with an 'external' tariff will have its complexities. However, Ofgem are perfectly positioned to clearly set out these benchmarks. From SSE's point of view, we would like confirmation, perhaps on a quarterly basis, of which tariffs Ofgem consider to be the industry benchmark by which the value of social initiatives should be judged.

The inconvenience of additional reporting complexity does not outweigh the absolute benefit to the fuel poor customer of such an approach.

Given the inclusion of E ON's Staywarm tariff into the framework, it is obvious that SSE's equivalent tariff 'Easywarm' falls within this framework. We will therefore provide additional information to Ofgem as is being required of E ON.

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

We see there being a role for rebates in both the short and long term but agree that Ofgem should encourage the industry to move away from rebates and towards social tariffs/packages as the most effective way of providing help to the fuel poor. At times, when we find a customer in particular hardship whilst placing them on the energyplus care tariff, we also give them a rebate off their previous bill. We firmly believe that this rebate should continue to count throughout the three years of the voluntary agreement.

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?

No. SSE believe very strongly that this proposal punishes suppliers who responded to the call from charities and NGOs in 2005/06 to align PPM tariffs with standard credit tariffs. The SSE Board of Directors responded to the September 2006 request from the Child Poverty Action Group, End Child Poverty, Disability Alliance, Help the Aged, Age Concern, Citizens' Advice, National Consumer Council, National Energy Action and energywatch when they said: "energy suppliers should take the lead now by equalising all PPM tariffs with standard credit tariffs". SSE agreed to subsidise the electricity PPM tariff. Some of our competitors chose not to respond.

While we agree that more refined targeting our efforts is a better approach in the longer term, we believe it sends out a bad signal if those who didn't take this step regarding the PPM tariff rates are effectively rewarded. We believe there should be a transitional period that recognises the fact that some suppliers are already making efforts – clearly benefiting significant numbers of people living in fuel poverty.

The fact that PPM subsidy may not be the most effective way of targeting the fuel poor does not invalidate it: the policy was aimed at the fuel poor, and clearly benefits very many of them (as the charities' arguments in September 2006 illustrate). Without some recognition of this fact, even in the first years of this programme, there is no incentive to keep the policy going. SSE would have to begin reversing its policy as a direct result and as a consequence some customers who have genuinely been taken out of fuel poverty by this policy will be adversely affected.

Furthermore, there are absurd consequences of using the criteria that the subsidy counts against our expenditure only if it is targeted. According to the framework, SSE could abolish the PPM subsidy currently given to 580,000 customers, and then spend significant time, resources and effort to target the 25% of those customers we believe to be in fuel poverty – and give them back the tariff that they were already on. Surely a more efficient way of doing this is to recognise that 25% of our electricity PPM customers living in fuel poverty benefit from the tariff subsidy meaning that 25% of the overall expenditure is credited to our efforts to help the fuel poor?

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

SSE does not have a Trust Fund and until now we had no strong views on this. The donations companies make to Trust Funds effectively hand over cash to fund welfare payments and the administration of those welfare payments. SSE chose to make all our efforts in house because we thought the costs of administering trusts were excessive. However, by excluding the internal administration from an area of 'legitimate spend' Ofgem has simply created an incentive to place all fuel poverty activity 'out of house'. We do not believe this is the optimum and most efficient use of the additional expenditure. Neither do we believe that as a company our staff will remain sensitised to the difficulties customers living in fuel poverty face if we simply hand the administration over to an external trust.

By excluding administration from the categories of 'legitimate spend' and including full Trust costs, there is an absolute incentive to put all fuel poverty initiatives out of house. Surely this is counter productive to the overall objective of improving overall services to the fuel poor?

Question 7: Do you agree with our proposed approach to including other categories of spend towards suppliers' social targets? In particular our proposed approach to energy efficiency initiatives, debt prevention initiatives and operational costs?

We welcome the inclusion of energy efficiency measures into the framework. Of course there should be no 'double counting' of CERT initiatives, but there are always opportunities to remove households from fuel poverty with creative use of energy efficiency measures and potentially micro generation technologies too.

We agree that debt prevention initiatives are part of our customer service obligations to all our customers. It is also important not to assume that fuel poor customers get themselves into debt. However, there is no doubt that debt compounds the difficulties faced by customers living in fuel poverty, thus our collaborative work with charities and agencies, since it tends to be more targeted to lower income groups, should count against our social spend targets.

Finally, we do not agree with Ofgem that the administrative costs of delivering our programmes should not count. SSE is an efficient business and we do not incur additional costs lightly. However, in order to properly target our social tariff Energyplus Care to the right customers, our staff conduct entitlement checks. Each check can take up a significant amount of time and there is a real administrative cost. Also, Energyplus Care is more than just a social tariff – SSE provides eligible customers with energy efficiency advice, benefits checks and the potential for free or subsidised electrical appliances. The administration of this package is labour intensive – but it is this aspect that is widely welcomed by charities and external agencies. It is these added-value services that would be at risk if the administration costs going forward are not included in the framework.

Ofgem recently recognized the benefits of the in-house approach in an entirely separate business area: electricity transmission. Commenting on the income-adjusting event in relation to the Beauly-Denny project in May 2008, it said: "We are convinced that SHETL diverting its own internal resource to the public inquiry (above and beyond what could reasonably be expected) has resulted in material cost savings that otherwise would have been funded by consumers."

Once again, we would need to rethink our approach if these costs could not be counted against our target. We believe we are efficient and effective in administering the social tariff, but clearly there is now an incentive not to carry out this level of work in house. We are pleased to work with other agencies in targeting the fuel poor, but this aspect of the framework effectively encourages all targeting work to be done externally. We do not believe this is the most efficient and effective way of delivering social packages to the fuel poor.

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

We believe that it should be relatively straightforward to demonstrate additionality in any schemes where we invest further than our CERT obligations would permit. There have already been occasions where we have drawn up contracts with a local body stipulating additional services (for example benefit entitlement checks) over and above the carbon savings required in accounting for CERT funds. We could either contract for these services entirely separately from the CERT measures, or we can stipulate that a certain proportion of the fee is to be targeted towards particular measures that would benefit the fuel poor.

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?

We agree that the Home Heat Helpline, Eaga pilot and DWP mailing should count against suppliers' social spend targets. It should be noted however, that there is evidence of significant administration costs in each of these initiatives.

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

Overall, it is a reasonable approach. However, to build in no flexibility whatsoever into the process is a significant problem. It is cannot be in the interests of efficient spending if there is no flexibility around the year end. We do not believe that this will lead to optimum efficiencies in the way the money is spent.

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

As stated previously, the baseline that has been set is an accident of history, not a proper approach to judge the value of suppliers' social initiatives to help the fuel poor. The purpose of the exercise last summer was to 'shine a light' on suppliers' initiatives - not to define the yardstick by which the value of those initiatives would be judged. We firmly believe that SSE's initiatives that benefit the fuel poor – PPM equalisation; Easywarm tariff for the over 60s; intensive customer service support to target the right customers for our social tariff – should all count within the baseline. If they don't, then the value of those initiatives will have to be questioned by the company.

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

We welcome the fact that Ofgem understand that the price of energy paid by the fuel poor customer is an important yardstick by which to be judged. However, any attempt to 'shine a light' on the comparative strengths of suppliers in this regard is now less relevant. We are in a process by which £150 million of expenditure is to be shared equitably between six competitors. Qualitative judgements, while helpful last summer, are no longer the focus of attention.

We therefore repeat our fundamental belief that low pricing strategies should be rewarded and high priced policies should be penalised. In any event, higher prices charged by suppliers contribute to higher levels of fuel poverty, and the principle that the 'polluter should pay' should permeate throughout this framework.

In short, we welcome comparisons between companies regarding prices, but without the comparisons 'counting', then it will have little impact.

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

We understand why Ofgem must pursue an inputs-based approach to monitoring suppliers' social initiatives. There are very clear limitations to such an approach – not least that the focus is on what the supplier claims to do, as opposed to the outcome for the customer. Given this limitation of an input-based approach, SSE believes there is an even greater imperative for Ofgem to ensure that there are mechanisms within the framework that sets standards for suppliers' social initiatives.

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

We appreciate that this is a highly unusual exercise for Ofgem to be conducting, and therefore understand that reassurances from the highest levels within the company would be helpful. We are happy to provide that.