



**Monitoring suppliers' social initiatives - proposed  
reporting framework  
Ofgem Consultation Document**

**Response by  
Warm Zone Limited**

**Background**

Warm Zones Limited (WZL) is a, not-for-profit company, which is a wholly owned subsidiary of the national energy efficiency charity, National Energy Action (NEA). The company operates a number of area-based Schemes designed to address fuel poverty. The Warm Zones approach involves the systematic assessment of the energy efficiency and income status of all the households in the areas in which they operate. This assessment is followed by the coordinated delivery of a range of energy efficiency measures and related services to meet the needs identified.

The Zones deliver a holistic, customer focused service and although the primary aim is to address fuel poverty, they aim to offer something for all of the households in the areas they serve. The company currently has eleven operational Zones covering a population of more than 2 million people and operating across 35 local authority areas. In addition there are a number of further Zones under development. The Zones utilise the energy supply company Carbon Emissions Reduction Target (CERT) programme as the main funding source for the energy efficiency improvements. Other sources of measures funding include the government's Warm Front scheme and local authority capital programmes. While CERT funding is used to fund energy efficiency measures, the majority of the Zones currently receive no other energy supply company, or government funding. The Zones must be self financing which limit the number of Zones which are financially viable. Relatively small amounts of funding to cover a proportion of the development, start up and operational costs would permit more area based initiatives to be established which would enable the service to be delivered to many more low-income and other vulnerable households.

The Zones deliver a range of high quality, integrated services to meet local needs and respond to the priorities of the communities they serve. A key component of the service provided by Warm Zones is income maximisation. The service is more than a simple benefit entitlement check and includes one-to-one claim support where necessary, to ensure successful claims are made for the unclaimed benefits identified.

WZL welcomes the additional resources which the energy supply companies will utilise to increase the support they provide their low-income and other vulnerable customers. The company also welcomes the opportunity to provide comments on this consultation document, on the type of initiative which can be supported with this funding and the arrangements for monitoring the expenditure.

## **General**

WZL supports the development of genuine social tariffs which represent the best tariff which low-income and other vulnerable customers can access. If a genuine, industry wide social tariff was introduced, or if it could be guaranteed that the social tariffs of all the energy supply companies represented the best tariff available to low-income households, WZL would be keen to advise the low-income households, to whom it provides assistance, to contact their supplier and sign up to their social tariff.

The present complex nature and frequent changes of the tariffs available and the difficulties of ensuring that the correct advice is provided prevents many agencies, including WZL, from providing tariff advice.

WZL supports the use of the majority of this additional funding available from the fuel suppliers to fund genuine social tariffs. However, we also support the inclusion of additional activities and initiatives in the categories of eligible expenditure. Well targeted, effective and efficient programmes can attract additional funding, producing a multiplier effect and as a result yield benefits far in excess of their direct costs.

For example, £1 invested in coordinating the delivery a comprehensive package of energy efficiency improvements and related services will produce benefits far in excess of the £1. Similarly WZL experience suggests that every £1 invested in income maximisation services can produce up to £12 of verified increased income<sup>1</sup>. The benefits of investment in such programmes are also likely to continue for a number of years while the investment in a social tariff will produce a one off reduction in energy bills.

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<sup>1</sup> This figure is based on certified, successful benefit claims and represents the additional income received for a single year together with any back payments. In the majority of cases the increased income will continue for a number of years producing a total benefit significantly higher than this figure.

As a result, WZL welcomes the suggestion in the Ofgem document that a wider range of measures and initiatives will be eligible for support from the funding. However, WZL believes that, because funding for such activities will result in less to spend on social tariffs, suppliers should be required to demonstrate that any measures or initiatives included do actually deliver additional benefits and to provide an estimate of those benefits.

### **Response to specific questions:**

#### **CHAPTER 2**

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

WZL welcomes the suggestion to define social tariffs as a tariff at least as good as the supplier's standard direct debit tariff, as an interim measure pending further analysis of this issue as part of the current Ofgem energy markets probe. However, we would like to go further and include online tariffs when defining the social tariff.

WZL can see merit in publishing the social tariffs of all suppliers in a readily accessible and up-to-date form to allow consumers and their advisors to judge the best offer.

However, WZL favours the introduction of an industry wide social tariff which would guarantee the lowest available tariff for vulnerable households. Despite the government's commitment to encourage innovation in social tariffs, WZL is yet to be convinced that innovation in this area will produce real benefits for low-income consumers as there is no real competitive market in this sector. A common social tariff across the industry, with a guarantee that it was the lowest available tariff, would be more likely to deliver real benefits to low-income consumers than a confusing range of offerings from the companies. Such a universal social tariff would make it straightforward for those who advise low-income consumers to ensure their clients obtain the best deal.

WZL also believes that care is required before Staywarm is categorised as a social tariff. While the principle of providing the reassurance of a fixed payment for fuel is understood, Ofgem should ensure that it meets all the necessary criterion, particularly that it represents the best deal for every customer, before including it in the list of social tariffs. Other tariffs may produce lower bills than those available from Staywarm, particularly for customers with low levels of consumption.

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

The proposed changes to the way in which the contributions which suppliers make towards their social tariffs are calculated, appear to offer a more

accurate estimate of these contributions. As such they are supported by WZL.

**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 noted above in the answer to Question 1, this would enable comparisons between the social tariffs of all suppliers to be made. However, the adoption of an industry wide social tariff would remove the need for such comparisons.

WZL would favour an approach in which there was a common definition of these households who qualify for social tariffs across all the companies. We can see some merit in using the same criteria as used to define the CERT priority group with the exception of the non benefit claiming over 70s, to define eligibility for social tariffs.

**CHAPTER 3:**

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

WZL supports the inclusion of rebates as part of the supply companies social spend.

**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?**

While WZL supports the principle of the inclusion of expenditure on PPM equalisation as part of suppliers social spend we can see many practical difficulties in distinguishing between vulnerable PPM customers and others. The introduction of an industry wide social tariff, irrespective of payment method, would remove the need for such equalisation as fuel poor PPM customers would be eligible for the social tariff.

**CHAPTER 4:**

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

It is WZL understanding that the £225 million is to be additional expenditure. While we recognise the valuable work funded through the trust funds, we would only support the inclusion of trust fund expenditure if it can be demonstrated that it is additional expenditure over and above the current or planned commitments or allocations.

**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?**

As noted above, WZL supports the inclusion of other categories of spend. However, we consider it vital that suppliers are able to demonstrate that any expenditure of this kind produces benefits to low income consumers at least equal to a consequent reduction in their bills.

WZL believes that the type of initiatives identified in this section of the consultation document, together with income maximisation services can provide multiplier effects and provide benefits significantly in excess of their costs. In addition to providing an estimate of the likely benefits, suppliers should be required report on the actual benefits achieved for any additional activities funded.

It may be helpful to define a maximum percentage of the funding which can be spent on these additional activities to ensure that the majority of the funding was used for social tariffs and rebates. This would still enable expenditure on the wider initiatives to produce the additional benefits they deliver.

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

Clearly any expenditure which could be counted as their normal CERT expenditure should not be counted. It is important for Ofgem to have an accurate estimate of the likely expenditure by the supply companies on discharging their statutory responsibilities and use this to compare with the proposed expenditure. It is also important to clearly distinguish between these statutory activities and the additional activities funded from these resources.

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

WZL supports the inclusion of such costs where they can be clearly identified. We consider it would be problematic to allow any of the supply companies internal administration costs to be counted, as it would be difficult to distinguish between the normal costs associated with administering their statutory requirements and those associated with additional activities.

**CHAPTER 6:**

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

WZL supports this approach.

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

WZL supports this approach.

**CHAPTER 7:**

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

WZL supports this analysis and the establishment of data on suppliers overall tariff and pricing strategies to provide a context against which to judge their social spend and programmes.

**CHAPTER 8:**

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

WZL supports the proposed continuing monitoring role for Ofgem. We would prefer to see an emphasis within this monitoring role on the assessment and reporting of the outcomes of the programmes, rather than the current emphasis on the inputs. We would also urge that the results of the annual monitoring are published in a timely fashion and as soon as practically feasible after the end of the financial year.

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

WZL supports this proposal. It would have the benefit of informing the Board of the nature and extent of the company's activities in this area and enable comparisons to be made with competitors.