

Monitoring suppliers' social initiatives

Document Type: Decision Document

Ref: 105/08

Date of Publication: 25 July 2008

Target Audience: Gas and electricity suppliers and potential new entrants, consumer groups in particular those representing pensioners, the disabled, the chronically sick or people on low incomes, environmental bodies, government departments and all interested parties.

Overview:

In the 2008 Budget, the Chancellor announced an increase in suppliers' collective expenditure on their social programmes of £225m over the period 2008-11. Government requested that Ofgem lead a process to set the parameters for what can be included as part of this spend and the associated reporting arrangements.

This document sets out Ofgem's decision to include the full range of measures such as tariffs, rebates, trust funds and partnership schemes as eligible. Allowing this diversity is important given the real difficulties in identifying and targeting the fuel poor. But, in setting the final guidelines, we have tightened the definition of a social tariff. For a social tariff to be described as such it must be at least as good as the lowest tariff offered by the supplier in that region. This move provides greater clarity and assurance to customers and their advisers of the value of a social tariff relative to other tariffs. The guidelines also confirm that the costs of prepayment meter pricing equalisation can only be considered eligible where it is targeted at the fuel poor.

Ofgem will report on suppliers spend against their social commitments each year. This will be based on information which has been signed off by suppliers at UK main Board level. We will revisit the guidelines in December 2008 to take account of the findings of the Energy Supply Markets Probe and the data sharing arrangements where appropriate.

Contact name and details: Angela Bourke

Tel: 020 7901 7306

Email: Angela.Bourke@ofgem.gov.uk

Team: Consumer and Social Affairs

Context

In the 2008 Budget, the Chancellor announced an increase in suppliers' collective expenditure on their social programmes of £225m over the next three years.

Government requested that Ofgem lead a process to set the parameters for what can be included by suppliers as part of this spend on social initiatives and the associated reporting arrangements.

Associated Documents

- Monitoring suppliers' social initiatives - proposed reporting framework, May 2008, Ref 68/08
http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/suppliers%20social%20monitoring_consultation.pdf
- Open letter to stakeholders on social monitoring, April 2008
<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Letter%20to%20stakeholders%20on%20social%20monitoring.pdf>
- Review of suppliers' voluntary initiatives to help vulnerable customers, August 2007, Ref 203/07
<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Review%20of%20suppliers%20voluntary%20initiatives.pdf>
- Ofgem's review of suppliers' voluntary initiatives update, October 2007, Ref 235/07
<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/CSR%20update%20open%20letter%2023507.pdf>
- Domestic Retail Market Report, June 2007, Ref 169/07
<http://www.ofgem.gov.uk/Markets/RetMkts/Compet/Documents1/DRMR%20March%202007doc%20v9%20-%20FINAL.pdf>
- Social Action Strategy 2008-09 Update, July 2008
http://www.ofgem.gov.uk/SUSTAINABILITY/SOCACTION/Documents1/sapstrategy_broa4july07.pdf

These documents can be requested in hard copy from: distribution@ofgem.gov.uk

Table of Contents

Summary	1
1. Introduction	3
2. Social tariffs	6
Definition of a social tariff	6
Calculating suppliers' contributions from social tariffs	9
3. Rebates and other discounts	11
Including rebates and other discounts towards suppliers' social spend targets	11
Suppliers' prepayment tariff equalisation policies	12
4. Trust Funds	15
Including suppliers' contributions from trust funds	15
Calculating suppliers' contributions from trust funds	17
5. Other categories of spend	18
6. Calculating suppliers' contribution	22
7. Suppliers' overall pricing strategies	24
8. Ofgem's monitoring role	26
9. Next steps	29
Appendices	30
Appendix 1 - Consultation Questions	31
Appendix 2 – The Authority's Powers and Duties	33
Appendix 3 - Glossary	35
Appendix 4 - Feedback Questionnaire	37

Summary

Rising energy prices have led to significant increases in the number of households in fuel poverty¹. Given the wider causes of fuel poverty, tackling it effectively requires a focus on raising incomes and improving housing. These are the responsibilities of Government and if statutory targets to eradicate fuel poverty are to be met additional resources will be required.

Energy suppliers play an important part in helping fuel poor and vulnerable consumers through their social initiatives, as well as through statutory CERT (Carbon Emissions Reduction Target) obligations. In the 2008 Budget, the Chancellor announced an increase in suppliers' collective expenditure on their social initiatives to at least £150m per year in 2011. Government secured an agreement with suppliers building up to deliver this commitment over the 2008-2011 period resulting in an additional £225m spend over three years.

Government asked Ofgem to lead a process to set the parameters for what can be included as part of this spend and the associated reporting arrangements. We have consulted widely on our proposals and taken account of the need to provide certainty to suppliers on the parameters for their social programmes as soon as practicable. We are appreciative of the responses received to our consultations given the limited time for response².

This document sets out our final proposals for the measures that can be counted towards suppliers' social spend targets agreed with Government. It also sets out the framework against which we will calculate, monitor and report suppliers' progress towards these commitments.

These guidelines aim to give clarity and certainty to consumers and their advisors on the measures that will count towards suppliers social commitments and, in the case of social tariffs more certainty on their value relative to other tariffs. For suppliers, the guidelines encompass a wide range of initiatives to enable innovation and competition and to promote a holistic approach to tackling fuel poverty. The guidelines also allow suppliers flexibility in structuring their social programmes, so as not to deter those suppliers who prefer to offer a smaller amount of support to a much wider group of fuel poor customers (a 'breadth' approach) rather than offering fewer customers a greater level of assistance (a 'depth' approach).

Under the framework, we will include the costs of suppliers' social tariffs towards their social spend commitments. We have, however, tightened our definition of a 'social tariff' which enables it to qualify and be categorised as such under these guidelines and reporting framework. In future any tariff labelled as a 'social tariff' must be at least as good as the lowest tariff offered by that supplier to a customer in that region on an enduring basis. This is regardless of that customer's payment method and includes online tariffs.

1 A fuel poor household is defined as a household spending more than 10% of their annual income to adequately heat their home.

2 All responses received to our open letter and consultation document are on the Ofgem website at: <http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Pages/CSR.aspx>

Other types of discounted or reduced tariffs, offered to fuel poor customers as part of a supplier's social programme but which do not meet the social tariff criteria, will continue to be counted towards suppliers' social spend commitments but under the "rebates and other discounts" category.

Even with this tighter definition of a social tariff some customers could still be better off switching to another supplier but they may need to switch their payment method. For this reason, we continue to recommend that consumers and their advisers look at all available options and shop around as much as possible.

We continue to see some merit in a benchmark for cross-industry social tariffs which would provide a stronger guarantee that customers are on the best deal available in the market. However the complexities and issues involved in defining a suitable metric mean that it is not possible to introduce at this stage. We will continue to look at this option setting out further proposals, if appropriate, when we review the guidelines in December.

Rebates and other discounts, trust funds and partnership initiatives are eligible to contribute towards suppliers' social spend targets. We will include spend on energy efficiency measures where suppliers can demonstrate they are clearly additional to their existing statutory obligations under CERT and suppliers' costs for undertaking benefit entitlement checks (BECs) are also included.

Administrative and delivery costs which individual suppliers incur in delivering their own social programmes are not eligible. We will however include these costs when they relate to specific projects involving joint working across industry and where suppliers can demonstrate that administration and delivery costs have been efficiently incurred, are a good use of their funds and that the measures they support have been effectively targeted at fuel poor customers or those at risk of fuel poverty.

We acknowledge the action taken by some suppliers to equalise their prepayment meter tariffs with their direct debit tariffs in response to the call from charities and NGOs in 2005-06. However, we do not intend to include these costs towards suppliers' social spend commitments unless suppliers can demonstrate that they are effectively targeted at the fuel poor. The issue of tariff and payment differentials is being examined more fully as part of Ofgem's Energy Supply Markets Probe and we consider that any change in approach to the treatment of prepayment meter equalisation costs would be premature.

Ofgem will monitor and report on suppliers' social programmes each year. This will draw on information on suppliers spend against the guidelines which will have been signed off by the Chairman of the main Board of the suppliers' UK Business.

We intend to revisit the guidelines and reporting framework in December 2008 to take account of Ofgem's supply market probe and Government's data sharing initiatives. We are mindful of the need for certainty and stability in the eligibility criteria to enable suppliers to plan and deliver support over the longer term and to meet their spend commitments. We will only amend these arrangements if we have a compelling reason to do so.

1. Introduction

1.1. Rising energy prices have led to significant increases in the number of households in fuel poverty. Fuel poverty is primarily caused by high energy prices, low incomes and poor housing conditions and is part of the wider problem of poverty and social exclusion. Given these wider causes, tackling fuel poverty effectively requires a focus on raising incomes and improving housing which are the responsibilities of Government. It is clear that if Government is to meet its statutory targets to eradicate fuel poverty in vulnerable households by 2010 and in all households by 2016 additional resources are required.

1.2. The Fuel Poverty Advisory Group (FPAG) estimate that a programme of measures of about £1 billion per annum is required and would need to be maintained over the next ten years for Government to meet its statutory targets³. This is higher than the current levels of spend on Warm Front, Carbon Emissions Reduction Target (CERT) and Decent Homes. We have previously stressed the need for these schemes to be properly integrated and for help to be targeted where it is most needed. This was a key theme of our recent Energy Summit on Fuel Poverty⁴.

1.3. Given the wider social causes of fuel poverty there will inevitably be a limit to the role that the industry and the regulator can play in tackling it. It remains Ofgem's priority to ensure that the energy market operates competitively as this is the most effective means of securing the lowest prices for all energy consumers. Our Energy Supply Markets Probe, announced on 21 February, will analyse whether the retail market is operating effectively and meeting the interests of all consumers. This is particularly so for prepayment customers, where we are also seeking further evidence on their switching to more expensive suppliers. We are reviewing the evidence and considering whether there is a need for further action.

1.4. Energy suppliers also play an important role in helping tackle fuel poverty through their social programmes and through their statutory obligations such as CERT. Each of the big six suppliers now offers a wide range of initiatives, including social tariffs, as part of their social programmes to assist vulnerable and fuel poor customers.

1.5. We developed our previous reporting framework on suppliers' voluntary social initiatives to help vulnerable customers in June 2007. The purpose of this framework was to shine a light on suppliers' social programmes. We published a review of suppliers' social initiatives in August 2007⁵ which focussed on suppliers' social tariffs, rebates and trust fund arrangements. It is recognised that these initiatives are only one element of the wide range of help that suppliers provide.

3 Fuel Poverty Advisory Group, Sixth Annual Report, 2007. <http://www.berr.gov.uk/files/file45365.pdf>

4

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Fuel%20Poverty%20Summit%20Action%20Programme.pdf>

5

<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Review%20of%20suppliers%20voluntary%20initiatives.pdf>

1.6. We published a subsequent update to this review in October 2007⁶. This updated analysis helped to inform Government's decision on whether to include powers in the Energy Bill enabling the Secretary of State to require companies to have a proportionate programme of support for their most vulnerable customers. This update looked at the broader array of initiatives in which suppliers are involved and made some assessment of future spend.

1.7. Since then the Chancellor announced, in the 2008 Budget, an increase in suppliers' collective expenditure on their social programmes of £225m over the next three years. Government secured an agreement with the six major energy suppliers to build up to deliver this commitment over the 2008-2011 period.

1.8. The key elements of the agreement with suppliers include:

- an increase in collective social spend from a baseline of around £50m now to £150m in 2010-11, to be split across suppliers based on market share;
- the increase will be delivered incrementally over the coming three year period so that suppliers' collective spend in 2008-09 is £100m; £125m in 2009-10 and £150m in 2010-11. This is an increase of around £225m over the next three years compared to the baseline;
- suppliers' initiatives must be targeted at the fuel poor or those vulnerable to fuel poverty;
- suppliers' contribution need not be in the form of social tariffs or rebates but can also include energy efficiency measures and other programmes. Government actively encourages suppliers to innovate and compete in this area;
- should suppliers continue initiatives previously outlined in Ofgem's reports, it would be a reasonable presumption that these would be counted towards suppliers' contributions going forward; and
- the £225m is additional spend - should existing supplier initiatives be included in the revised framework (where they were not counted previously) this would increase the baseline and the targets accordingly.

1.9. Ofgem agreed to lead a process to set the parameters for what can be included by suppliers as part of their spend on social initiatives and the associated reporting arrangements.

1.10. The agreement is clear in specifying that should suppliers not agree to, or comply with, the framework Ofgem will report this to the Department for Business, Enterprise and Regulatory Reform (BERR) who will review the voluntary basis of these arrangements going forward. We would expect that any supplier who is concerned about meeting their spend commitment in any year, would flag this to BERR and Ofgem in advance to agree a way forward.

1.11. In light of the recent agreement that Government has secured with suppliers to increase their social spend, we have consulted on whether our previous approach

6

<http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/CSR%20update%20open%20letter%2023507.pdf>

remains appropriate or whether changes are required to our monitoring framework. In May we published a consultation document seeking views on the reporting framework used in our August and October 2007 publications. This document was informed by an earlier open letter, published on 21 April 2008, which sought initial views from stakeholders on key issues.

1.12. We have been mindful of the need to undertake a thorough consultation process to allow stakeholder input and provide additional transparency in our decision making. We have also taken account of the need to provide certainty to suppliers on the parameters for their social programmes, given that the period covered by the agreement commenced on 1 April 2008. We are therefore appreciative of the responses received from stakeholders given these constrained timeframes.

1.13. In the following chapters, we outline our decisions on the final monitoring and reporting framework for suppliers' social spend. For ease of reference, we have followed the same format as that of our consultation document.

1.14. It should be noted that all references to "suppliers" and "all suppliers" refer to the six major energy suppliers in Great Britain i.e. British Gas, EDF Energy, E.ON (formerly Powergen), npower, ScottishPower and SSE.

2. Social tariffs

Chapter summary

This chapter sets out our final proposals on the qualifying criteria for social tariffs and how we will count suppliers' contribution from their social tariffs towards their social spend targets.

Definition of a social tariff

2.1. Under our previous reporting framework, we included social tariffs towards suppliers' social spend contribution. We specified that for a tariff to qualify as a "social tariff" it must be at least as good as the suppliers' standard direct debit tariff. There has been considerable debate around what should qualify as a "social tariff".

Our proposed approach (May 08)

2.2. For the first year of the agreement (covering the period 2008-09), we proposed to maintain our previous approach and include social tariffs where they were at least as good as the suppliers' standard direct debit tariff.

2.3. We also noted that Ofgem's Probe was the primary route for addressing any issues with payment differentials and proposed that should the findings of the Probe result in changes to payment differentials and suppliers' social tariffs, we would revisit this area and update the framework in December 2008.

Respondents' views

2.4. Three supplier respondents agreed with our proposed approach where a social tariff must be at least as good as a supplier's standard direct debit tariff, with one noting that suppliers were able to choose to exceed this standard should they wish.

2.5. The majority of respondents however, primarily consumer groups and one supplier, supported a tighter definition of a social tariff where it would be at least equivalent to that supplier's lowest offer, including online tariffs. It was argued that this would ensure that advisors could have confidence in recommending social tariffs and that customers could be confident that they were on the best deal their supplier could offer. This is particularly so for vulnerable customers who, in some instances, may be less likely to switch or may be prevented from switching because of debt. This was also a strong message from Ofgem's Fuel Poverty Summit where we discussed the scope for a wider range of front line consumer advisors to help in identifying and targeting those in fuel poverty.

2.6. One supplier suggested that a social tariff should exceed the standard direct debit rate so that those fuel poor customers who currently already pay by direct

debit would receive some additional benefit from moving onto their suppliers' social tariff whereas they currently may not. Three other respondents, including one supplier, suggested that there should be no criteria for social tariffs.

2.7. Finally, two respondents advocated a uniform and mandated approach to social tariffs with the price and eligibility criteria specified and agreed across the industry.

2.8. As part of our consultation, we also sought views from respondents on the implications of requiring a social tariff to be the lowest for that payment method regardless of which supplier the customer is with. Many respondents expressed concern with this approach arguing that it would be practically difficult to administer and may lead to distortions and unintended consequences in the energy market as well as restricting competition. Suppliers in particular highlighted the added complexity and cost, for both themselves and customers, of continuously monitoring competitors' pricing to ensure that their social tariff met this condition.

2.9. Some suppliers expressed concern over our proposals to revisit this area in December in light of the initial findings from the Probe. Suppliers noted that this uncertainty may encourage them to opt for more shorter term initiatives, such as rebates, which may not be the best way of targeting their spend or assisting fuel poor customers.

Decision

2.10. We have considered all of the responses to our consultation and the advantages and disadvantages of a number of different approaches to the qualifying criteria for social tariffs. In light of this analysis and the overwhelming support from respondents, we have specified stricter qualifying criteria for eligible social tariffs. In future, for a supplier's tariff to qualify as a 'social tariff' it must be at least as good as the lowest tariff offered by that supplier to a customer in that region on an enduring basis. This is regardless of that customer's payment method and includes online tariffs.

2.11. Under this approach, should a customer be eligible for, and move onto their supplier's social tariff that customer would not be able to obtain a better tariff with their existing supplier in their region. Their supplier may have other tariffs, offered in other regions, which may be lower but would not be available to customers in that region. For some customers, there may yet be better deals available from shopping around and switching to other suppliers. However, in the vast majority of cases to make any further savings these customers would have to switch to another suppliers' online tariff, which may not be accessible to many fuel poor and vulnerable customers. We encourage customers to shop around where possible and for consumer advisors to continue to make customers aware of the tariff and payment options available. The Fuel Poverty Action Programme⁷ that followed Ofgem's Fuel Poverty Summit in April sets out a number of commitments agreed between

7

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Fuel%20Poverty%20Summit%20Action%20Programme.pdf>

suppliers and consumer advice agencies to provide better information and advice on switching, social tariffs and other help that is available.

2.12. The approach outlined above continues to allow suppliers flexibility in how they structure their social tariffs provided these tariffs meet the criteria specified above. For example, the social tariffs offered by suppliers to eligible customers regardless of payment method may take the form of either:

- a set discount off eligible customers' tariffs so that it is at least as good as the supplier's lowest tariff on offer in that region;
- a tariff which is at least as good as the supplier's lowest tariff on offer in that region; or
- a fixed bill tariff for one year regardless of consumption in that year, provided that it is at least as good as the supplier's lowest tariff on offer in that region.

2.13. It is important to note that we will continue to count other discounted tariffs which suppliers offer to fuel poor customers which do not meet this stricter criteria towards suppliers' social spend commitments. These however will not be reported under the 'social tariffs' category but will be included in the 'rebates and other discounts' category. Going forward, we would not expect suppliers to market or label other discounted or reduced tariffs as social tariffs unless they are consistent with the guidance and eligibility criteria above. However, suppliers remain free to adopt other strategies such as offering a smaller discount to a broader group and we continue to believe that allowing this diversity of approach is important given the real difficulties in identifying and targeting the fuel poor.

2.14. Suppliers may wish to offer a short-term promotional tariff which would be lower than their social tariff. The details of these should be notified to and discussed with Ofgem. We would not expect to see more than one such offer, lasting for a short term, in any twelve month period. The purpose of this is to acknowledge the role such offers can play in promoting consumer choice and competition while ensuring that customers on a social tariff are guaranteed to be on the best enduring deal that their existing supplier offers, consistent with our guidelines on social tariffs.

2.15. We consider that adopting this stricter definition of social tariffs will set a much clearer standard and ensure that the 'social tariff' label is credible, providing consumers with assurance and a much simpler message. It will also ensure that consumer advisors can have more confidence in recommending social tariffs, especially to those customers who are unable to switch, or choose not to either because of debt or other vulnerability. Advisers can be confident that customers will be on the best tariff their existing supplier could offer them. This was an important message arising from our April Fuel Poverty Summit where we discussed the scope for a wider range of front line advisors to help in identifying and targeting support to those in, or at risk of, fuel poverty.

2.16. We remain of the view that some form of cross-industry benchmark for suppliers' social tariffs could have merit. This would ensure that customers and their advisors could be confident that fuel poor and vulnerable customers would always be

better off on their supplier's social tariff and avoid instances where they would benefit more by switching supplier. We signalled in our May consultation that we intend to review this area again in December 2008, once the initial findings from the Probe have been published as this may have further implications for suppliers' payment differentials and social tariffs. We intend to consider this approach more fully then. As we have already highlighted, we are mindful of the importance of certainty and stability in these guidelines to enable suppliers to plan programmes to deliver support over the longer term and to meet their spend targets. We will only amend this framework where we have a compelling reason to do so.

Calculating suppliers' contributions from social tariffs

2.17. Under our previous framework, to determine the savings available to customers on social tariffs, we calculated the difference between a weighted average annual bill based on each supplier's standard credit and prepayment tariffs and the social tariff.

2.18. A number of assumptions were included in these calculations, which are outlined below:

- that no customers paying by Direct Debit were on a social tariff. This is likely to be correct for British Gas' Essentials social tariff given there are no savings over direct debit, but may slightly overstate the savings for other suppliers;
- that all social tariff customers were previously paying by prepayment meter or standard credit, split as in the population overall; and
- that a customer's annual consumption for electricity was 3,300kWh and for gas was 20,500kWh.

Our proposed approach (May 08)

2.19. We proposed to build upon our existing analysis of the savings to customers (and equivalently the lost revenue to suppliers) from social tariffs by using actual data from suppliers, rather than the assumptions above. We proposed to request average annual consumption levels for customers on their social tariffs along with the actual split across different payment methods from each of the suppliers. We also proposed to collect more information from E.ON on their Staywarm tariff to ensure that their contribution is monitored on a comparable basis to other suppliers.

2.20. As in our previous reports, we proposed to include information on suppliers' estimates of the cost of providing their social tariff as well as a comparison of each supplier's social tariff with other rates in the market.

Respondents' views

2.21. There was strong support from respondents regarding our proposals to improve our social tariffs analysis by using actual consumption figures and the actual split across different payment methods for the customers on each supplier's social tariff.

2.22. Three respondents proposed alternative approaches. One supplier recommended that suppliers should calculate their own contributions from their social tariffs as they are better able to reflect the complexities of price changes and part year effects. A different supplier questioned whether the added complexity introduced by the proposals would be worth the benefits. The third respondent suggested that a supplier's contribution should be calculated based on the outcome for the consumer (rather than a prescriptive methodology) and that it would not be appropriate for suppliers to estimate their own contributions.

Decision

2.23. Given the broad support for our proposals we will adopt this approach. We will therefore include actual average annual consumption levels and the split across different payment methods for customers on suppliers' social tariffs when calculating suppliers' contributions from their social tariffs.

2.24. We will also include information on suppliers' own estimates of the cost of providing their social tariff as well as a comparison of each supplier's social tariff with other rates in the market.

2.25. For the purposes of calculating the baseline spend for 2007-08, when calculating suppliers' contribution from their social tariffs, we will apply the new definition where a social tariff must be at least as good as the supplier's lowest offer in that region. As previously advised, for those discounted tariffs which do not meet this stricter definition of a social tariff, we will count this spend under the 'rebates and other discounts' category.

3. Rebates and other discounts

Chapter Summary

This chapter sets out our final proposals on including rebates and other discounts towards suppliers' social spend targets and our decision on including suppliers' costs associated with prepayment tariff equalisation policies.

Including rebates and other discounts towards suppliers' social spend targets

3.1. As well as social tariffs, suppliers also offer a range of other one-off rebates and other price/tariff discounts to fuel poor and vulnerable customers. A rebate is generally offered once a year to specific customers, or a specific group of customers. These are often offered at winter time when customers find it particularly difficult to afford higher energy costs. Under our previous monitoring framework, we included rebates towards suppliers' social spend.

Our proposed approach (May 08)

3.2. We proposed to maintain our previous approach and include rebates and other discounts towards suppliers' social spend targets for the 2008-09 period. Under this proposed approach we set out that we expected suppliers to target any rebate on customers who are fuel poor or vulnerable to fuel poverty and to not structure their rebates in a way that could distort competition.

3.3. As with our approach to suppliers' contributions from their social tariffs, we proposed to revisit this issue once the initial findings from the energy supply markets probe are published in September. Should we decide that changes are needed, we will publish an update to the framework in December 2008.

Respondents' views

3.4. All respondents supported including rebates towards suppliers' social spend targets. The majority of respondents agreed that a targeted rebate, when applied directly against a customer's energy bill, is an effective mechanism of assisting fuel poor customers to better afford their energy.

3.5. Five respondents suggested that rebates should only be counted where they make a meaningful difference to the energy expenditure of a low income household or result in a significant reduction to a customer's annual energy bill. One of these respondents further suggested that Ofgem should set minimum criteria for eligible rebates.

Decision

3.6. Our decision is to include rebates and other discounts towards suppliers' social spend targets where they are targeted at fuel poor consumers and those vulnerable to fuel poverty. We will continue to use the methodology for calculating suppliers' contributions from their rebates which we used in our previous reporting (i.e. multiplying the total number of customers in receipt of the rebate by the average benefit received by the customer).

3.7. For other price and tariff discounts, we intend to calculate suppliers' contributions based on the savings to customers from the discounted tariff. The exact methodology may vary depending on how the discount is applied to the customer's account. We would expect suppliers to clearly demonstrate how any discounted tariff was applied to the customer's account, along with the savings to the customer, so we could accurately determine their contribution.

3.8. We have highlighted that a significant benefit to continuing to include rebates is that many are focussed at winter time when fuel poor and vulnerable customers find it most difficult to afford their energy bills. Rebates also have the advantage of being easier for suppliers to administer and can be delivered in a relatively short time period, which will provide suppliers with valuable flexibility to meet their target spend levels. This may be particularly important for suppliers in this first year of the agreement (2008-09), where they may find it more difficult to meet their targets, given the large increase in spend required and the limited time to achieve it.

3.9. As highlighted above, a number of respondents suggested that a rebate should have a meaningful impact on a customer's fuel bill to be eligible for inclusion. We do not consider it appropriate to set any further criteria for qualifying rebates or other price/tariff discounts however we recognise the importance of suppliers providing meaningful help to their customers. We plan to keep suppliers' use of rebates, and the level at which they are set, under review and will include examples of best practice in this area as part of our reporting to help address these concerns.

Suppliers' prepayment tariff equalisation policies

3.10. In our previous social monitoring framework, we reported on suppliers' policies to equalise prepayment meter (PPM) tariffs with their direct debit tariffs. We did not, however, include this towards the suppliers' total contribution except where the equalisation was directed solely at fuel poor or vulnerable customers, for example as in the case of British Gas' Essentials Tariff.

Our proposed approach (May 08)

3.11. We proposed to maintain our previous approach and count PPM equalisation only where it is, via the use of eligibility criteria, targeted at fuel poor customers. Given that only 25% of all PPM customers are fuel poor we considered that a blanket

approach to PPM equalisation is too poorly targeted to be included towards suppliers' spend targets.

Respondents' views

3.12. Most supplier and consumer representative respondents agreed with our proposals to only include PPM equalisation where it is targeted at fuel poor customers. Some respondents also suggested that, in any event, they would prefer fuel poor prepayment customers to be assisted by their suppliers' social tariff and other associated initiatives, rather than a PPM equalisation policy.

3.13. Three supplier respondents did not support our proposed approach and argued that where suppliers equalise PPM tariffs for all customers they should be credited for the proportion of spend which would assist their fuel poor customers.

3.14. They argued that this alternative approach would:

- provide greater parity across suppliers given that some suppliers receive credit where they equalise for fuel poor customers while other suppliers, who equalised PPM tariffs for all customers in response to calls from charities and NGOs, do not - which they consider leaves them at a competitive disadvantage;
- a blanket approach, whilst not the most effective way of targeting the fuel poor, clearly benefits significant numbers of people living on low incomes and in fuel poverty and should suppliers wind back from these policies some customers who have genuinely been taken out of fuel poverty by these blanket PPM equalisation policies may fall back into fuel poverty as a result; and
- under our proposed approach in order for their spend to be counted, suppliers would need to abolish their blanket PPM equalisation policies and then spend significant time and resources to target the 25% of those customers in fuel poverty to put them back on their reduced tariff. They have argued that a more efficient approach would be to allow credit for the 25% of the overall expenditure which would have been directed at those fuel poor PPM customers.

3.15. Whilst we have some sympathy for the arguments above, we are mindful that most respondents supported our proposed approach to not include PPM equalisation costs where it was not targeted. We also consider that changing our approach in this area at this point in time would be premature given the work underway as part of the Probe to test payment differentials.

3.16. It is also important to highlight that should we revise the framework to include PPM equalisation for the proportion of customers who are fuel poor, we would also need to revise the baseline and target levels for suppliers' social spend. Furthermore, given that not all suppliers have PPM equalisation policies, only those that did would benefit from this spend being counted, however the increases to the baseline and the costs associated with increased targets would have an impact on all suppliers.

Decision

3.17. Our final proposal is to maintain our previous approach and count PPM equalisation only where it is, via the use of eligibility criteria, targeted at fuel poor customers.

3.18. We see the work underway as part of the probe as the primary route for addressing any issues with payment differentials. If the probe findings have implications for our approach to this issue, we will update the framework in December.

4. Trust Funds

Chapter summary

This chapter sets out our final proposals for including trust funds and calculating their contribution towards suppliers' social spend targets.

Including suppliers' contributions from trust funds

4.1. Trust funds refer to a trust run and funded by a supplier, or funded by the supplier and independently run by a third party. The supplier provides a sum of money that is then spent on helping individual customers or on a number of projects.

4.2. Trust funds generally offer two forms of help:

- Direct assistance to customers in debt;
- Funding of third party projects aimed at customers in fuel poverty or otherwise with severe financial difficulties.

4.3. In developing our previous monitoring framework, there was scepticism from some stakeholders that many of the trust funds are simply a different way of writing off debt (and therefore recycling funds back into the company). However, in some cases help is provided for debts other than energy and the fund still provides a valuable source of help to those it assists.

Our proposed approach

4.4. We proposed to include trust funds towards the suppliers' target using the same methodology as our previous reports. When calculating suppliers' contribution from their trust funds we counted the trust fund spend, as a steadier flow, rather than sums suppliers had committed or donated to the fund.

4.5. To complement this we also published information on how much suppliers had donated to the trust fund, the total amount spent by the fund and the number of customers provided with support through the fund.

Respondents' views

4.6. The majority of respondents agreed that trust funds should be included towards the suppliers' social commitments target as they provide a valuable contribution as part of the range of solutions to support the fuel poor and those at risk of fuel poverty.

4.7. However a number of respondents (five in total) suggested that we only include social tariffs and rebates towards suppliers' social spend targets, given that these have a direct impact on the amount consumers pay for their energy. These respondents therefore suggested that trust funds should not be included. Whilst they acknowledged the benefits arising from suppliers' trust funds and the valuable assistance and relief they can provide to fuel poor customers, they suggested that they should be funded in some other way and not be counted towards suppliers' social spend targets. They also recommended that, in any event, Ofgem should continue to monitor and report on suppliers' activity in this area.

4.8. These respondents argued that the 2008 Budget gave an expectation that the additional money would be spent on social tariffs and referred to the following statement from the 2008 Budget: *"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"*.

4.9. BERR have made it clear that the Budget statement refers to suppliers' broader social programmes not just suppliers' social tariffs. This is evident from the baseline spend figure quoted of around £50 million which incorporates all suppliers' social initiatives, including trust funds and partnership working. Furthermore, in reaching this agreement with suppliers, the Secretary of State for Business, Enterprise and Regulatory Reform was explicit that their contribution need not only be in the form of social tariffs or rebates but can also include other programmes. The Secretary of State also advised suppliers that they could reasonably expect that the categories of spend included in Ofgem's report of October 2007 would be counted going forwards.

4.10. In our past reporting we have stressed the benefits of a diversity of approach to suppliers' social programmes and encouraging innovation from suppliers, given the real difficulties in identifying and targeting fuel poor households. In particular, we have flagged that many of the initiatives other than social tariffs have played a very valuable role in targeting hard to reach consumers. This is especially true of some suppliers' partnership projects which are aimed at providing advice to vulnerable customers and are important in ensuring these customers get access to the full range of help available. Most stakeholders have also recognised the value of the range of measures to aid energy efficiency and income maximisation as more enduring and sustainable ways to tackle fuel poverty.

Decision

4.11. Whilst some consumer representatives argued for a narrower approach as outlined above, there were many who did not. Given there was clear recognition of the value of these initiatives and the expectation set by BERR in reaching the agreement with suppliers, we will continue to count suppliers' contributions from their trust funds.

Calculating suppliers' contributions from trust funds

Our proposed approach (May 08)

4.12. As outlined above, when calculating suppliers' contribution from their trust funds we previously counted the trust fund spend, as a steadier flow, rather than sums suppliers had committed or donated to the fund.

Respondents' views

4.13. Most suppliers, whilst agreeing that trust funds should be included, did not support our approach to calculating the contribution towards their spend target. They argued that we should count their donation or contribution to the fund rather than what the fund spends. The key reasons for this were:

- many of the suppliers' trust funds are run as independent charitable trusts where the supplier has no control or influence over how or when the money donated is spent;
- the true contribution from the supplier is the amount donated to the fund, which is then deemed as spent for their accounting and auditing purposes;
- this is inconsistent with our approach to other donations to third party organisations where we have proposed that the entire donation would be included;
- in instances where trust funds have a surplus Ofgem could require that they demonstrate that any carry over is on the basis that the money is spent appropriately within a reasonable timescale;
- if our proposed approach were taken, it would make it difficult for suppliers to guarantee they will meet their target (other than by giving a rebate). Donations to trust funds give suppliers valuable flexibility in meeting their targets.

Decision

4.14. In calculating suppliers' contributions to their spend targets from their trust funds we will count suppliers' donation to the trust rather than what the fund spends. Where a trust fund is run in-house by the suppliers and not a charitable trust, that supplier must demonstrate that funds committed to the trust are sufficiently ring-fenced.

4.15. Should a trust fund have a large surplus at the end of the reporting period, the supplier will need to demonstrate that any carry over will be spent appropriately within a reasonable timescale for the full sum to be eligible for inclusion against the supplier's social commitments.

5. Other categories of spend

Chapter summary

This chapter sets out our final proposals for including other categories of spend towards suppliers' social spend targets, including energy efficiency measures, benefit entitlement checks, debt prevention initiatives and operational/administration costs.

5.1. In our 2007 reporting on suppliers' voluntary social initiatives we recognised the benefit of suppliers' diverse approaches to helping vulnerable and fuel poor customers and aimed to reflect this in our reporting. As part of our October 2007 update on suppliers' voluntary social initiatives, we particularly sought to take account of the wide range of other initiatives and support suppliers offer their vulnerable customers, which do not fall into the social tariff, rebate and trust fund categories that were the focus of the August 2007 review.

5.2. Under our proposed approach, we remained of the view that it is important to take account of, and recognise, the wide range of other initiatives and support suppliers offer their fuel poor and vulnerable customers, which do not fall into the social tariff, rebate and trust fund categories. We proposed to include suppliers' spend on partnerships, energy efficiency measures where they are clearly additional to suppliers' existing statutory obligations, benefit entitlement checks and efficient administration costs for joint industry projects.

5.3. We received a variety of responses to these issues. As previously noted, five respondents suggested that we should only include social tariffs and rebates towards suppliers' social spend targets. These respondents were therefore not supportive of including these other categories of initiatives towards suppliers' spend targets. The remaining respondents were, in the main, supportive of our proposed approach, recognising the value of measures to aid energy efficiency and income maximisation as a more sustainable, long-term approach to tackling fuel poverty.

5.4. For each of the different types or categories of initiatives below, we set out in more detail our proposed approach, the views from respondents and our final decision.

Partnerships and other initiatives

5.5. In our May consultation we proposed to include partnerships and other initiatives towards suppliers' social spend targets where these partnership working and other initiatives were targeted at assistance or advice to fuel poor consumers, and those vulnerable to fuel poverty.

5.6. Respondents were supportive of this approach given that these initiatives can be critical in ensuring hard to reach customers get access to the full range of help

available. We will include these partnership initiatives towards suppliers' social spend targets.

Benefit entitlement checks (BECs)

5.7. Where suppliers undertake BECs for customers who are fuel poor or vulnerable to fuel poverty, we proposed that the efficient costs of providing them (but not the value of the benefits gained by the customer) would contribute towards suppliers' social spend targets.

5.8. Those respondents who did not support the inclusion of BECs argued that it should not be the role of energy suppliers to fund BECs as it is the responsibility of Government and should be funded through DWP. Most, however, were supportive of including the costs of BECs towards suppliers' social spend targets, particularly where these were carried out by trusted third party intermediaries. These respondents highlighted the on-going benefits to customers of suppliers' investment in these income maximisation initiatives and the significant impact this can have on fuel poverty.

5.9. We will therefore include the costs of providing benefit entitlement checks towards suppliers social spend targets.

Energy efficiency initiatives

5.10. Under our previous framework, we did not include any initiatives which suppliers are obliged to undertake, for example initiatives to fulfil their statutory commitments under the Energy Efficiency Commitment (EEC), now CERT; we therefore did not include suppliers' spend on activities such as Heatstreets or Warm Zones.

5.11. In our May consultation we proposed, in principle, to include these initiatives towards suppliers' social spend targets provided that suppliers can demonstrate true additionality above their statutory obligations (i.e. where they would not have incurred the costs anyway to meet their EEC/CERT priority group targets) and where they can ensure there is no double-counting of CERT measures.

5.12. While most respondents supported our proposals to include energy efficiency initiatives that were truly additional to the suppliers' statutory obligations, they expressed concern regarding how we would ensure there was no double counting of measures installed under suppliers' CERT activities.

5.13. Some suppliers advised that it would be reasonably straightforward to separate the costs of energy efficiency measures installed under CERT from those that would be funded through their social spend. It was also commented that we could ensure additionality by assessing each proposal on a case-by-case basis. Alternatively, it was proposed that we could take a risk based approach to this area where larger amounts of spend would be subject to greater levels of scrutiny and vice versa. It

was argued that this approach would help to ensure that the additionality threshold on suppliers was not prohibitive.

5.14. Energy efficiency initiatives will be eligible towards suppliers' social spend targets provided that suppliers can demonstrate true additionality above their statutory obligations. We are supportive of including these initiatives, particularly where it will leverage other energy efficiency measures to be installed in fuel poor households which would not otherwise have been completed under CERT. We are, however, mindful of the concerns raised by a number of respondents about the difficulties posed by the potential for double counting in this area. Several of the supplier respondents were confident that they would be able to either separately contract for, or easily identify those measures installed outside of their CERT statutory obligations. Given that we administer the CERT scheme on behalf of Defra, we consider we are in as good a position as any organisation to assess the additionality of energy efficiency measures and initiatives taken forward by suppliers. We recognise that some practical issues may arise, and it will be for suppliers to demonstrate that the measures they have undertaken are clearly additional and it will be for the supply company Boards to certify the information provided in support of this.

Debt advice and suppliers' debt prevention strategies

5.15. Whilst we recognise that debt advice and debt prevention initiatives can play an important part in preventing or addressing fuel poverty, we consider that these activities form part of suppliers' regulatory obligations. Where they fall outside this, we consider these types of initiatives to be activities all suppliers should undertake as a matter of course and as part of good customer service.

5.16. In our May consultation we did not propose to include suppliers' costs for the debt mitigation and prevention initiatives towards their social spend targets. We did, however, propose to include debt mitigation initiatives where a supplier provides funding for external organisations to provide general debt advice to any vulnerable or fuel poor customer (i.e. not just their own customers), for example by funding services provided through the Citizens Advice Bureau (CAB) or the Money Advice Trust.

5.17. There was broad support for our proposal to only include these initiatives where they fall outside a supplier's regulatory obligations and as such we will adopt our proposed approach.

Operational and administrative costs

5.18. In our 2007 reporting framework we did not include any administrative or operational costs that suppliers incurred through delivering their social programmes. We did publish suppliers' own estimates of their costs alongside our analysis for comparative purposes and these may have included elements of these operational and administrative costs. We also recognised that where a supplier funds a partnership or donates money to a trust fund, we have counted their total

contribution which may have included an element of administration and/or delivery costs.

5.19. We noted that there are clearly issues here with establishing whether costs are truly additional costs and in providing sufficient incentives on suppliers to keep administration costs to a minimum, given the need to ensure that customers' money is being well spent.

5.20. Our May consultation proposed to include efficient administration costs where they relate to specific projects involving joint working across industry. We proposed that for an initiative's administration costs to be included, suppliers must be satisfied and able to demonstrate to Ofgem that it is a good use of their funds, that the costs are efficient and that the measure for which the administrative costs have been incurred has been effectively targeted at the fuel poor. Furthermore, in terms of the nature of the administrative costs that can be counted, we would expect these to be costs associated with the direct administration and delivery of the measure or initiative and not the policy development costs (such as allocations of staff or management time in developing the initiative).

5.21. We received a range of responses on this proposal. While a number of respondents did not support this approach, some recognised that should these costs not be included there is a risk that suppliers may discontinue or scale down these activities which can be critical in helping suppliers to target their assistance at those most in need. Most suppliers suggested that we should also include their individual administration and operational costs associated with their social programmes.

5.22. Efficient administration costs where they relate to specific projects involving joint working across industry will be eligible. For these costs to count, suppliers will be required to demonstrate that they have been efficiently incurred, are a good use of their funds and that the measures which the costs support have been effectively targeted at fuel poor customers or those at risk of fuel poverty. We do not consider it appropriate to include all individual suppliers administrative and delivery costs, but as with our 2007 report we will publish suppliers own estimates of their costs of different social initiatives which may include an element of these costs.

5.23. Some examples of specific initiatives where we would expect administrative costs to be eligible include:

- the proposed pilot where customers, as part of the Warm Front programme administered by eaga plc, are referred to their supplier for tariff advice;
- joint industry mail outs to customers vulnerable to fuel poverty using DWP data;
- the joint industry Home Heat Helpline.

5.24. If suppliers wish to include the administration and delivery costs of such initiatives against their social commitments, they will be required to provide a clear and compelling case to Ofgem setting out how these initiatives meet the above requirements.

6. Calculating suppliers' contribution

Chapter summary

This chapter sets out our final proposals for calculating suppliers' contribution to their social spend on a per customer account basis and in setting the baseline and target levels of expenditure.

6.1. As part of our previous monitoring framework, we included analysis to show the total cost to suppliers of their social initiatives divided by the total number of customer accounts they have. This provided an indication of the relative contribution each supplier was making in terms of the scale of their social programmes.

Our proposed approach (May 08)

6.2. We proposed to continue to publish information on the cost to suppliers of their social programmes on a per account basis, using customer number information provided by suppliers to Ofgem for CERT.

6.3. It was suggested that we should include some flexibility in how the suppliers reach their targets to allow for carryover into the following year. BERR's view at the time of reaching the agreement with suppliers was that the annual sums set out in the agreement should be fixed and should not be subject to any carryover, not least to ensure that suppliers do not delay their support for the fuel poor and those vulnerable to fuel poverty.

Respondents' views

6.4. There was broad agreement from respondents to our proposals for calculating suppliers' contribution towards their social spend targets.

6.5. Five respondents, including three suppliers, again advocated the inclusion of a flexibility mechanism to allow for carryover of any debt or overspend into the following year. These respondents highlighted that this would be particularly helpful for the first year of the target given the level of ramping up in this period and that the process to finalise the framework, baseline and target spend levels was not yet complete. One respondent proposed an alternative approach to setting the target by resetting the target annually based upon the suppliers' total profits for the previous year.

Decision

6.6. We will continue to publish information on the cost to suppliers of their social programmes on a per account basis, using customer number information provided by suppliers to Ofgem for CERT.

6.7. Government, in reaching this agreement with suppliers, made clear that it is looking for net increases compared with current levels of expenditure and that there should be no flexibility for carryover. The approximately £50million baseline figure was calculated by BERR and based on information in our October 2007 report as well as some projected spend for the remaining part of 2007-08. BERR were also explicit that if as a result of this process in setting the parameters for what can be included towards this spend, where the baseline is revised upwards to incorporate any further relevant expenditure, the target level of expenditure for each year would similarly be revised upwards, as would the amount per customer account, to reflect this.

6.8. We intend to report in September 2008 on suppliers' social spend over the 2007-08 period using the revised monitoring framework. This report will clarify the baseline figure of suppliers' social spend and any revisions to the target spend levels for the 2008-11 period.

6.9. Whilst we recognise the advantages of suppliers having a small amount of flexibility in meeting their targets, our role is clearly to monitor suppliers' contribution and refer any instances where suppliers fail to meet their target to BERR. Any decision on allowing suppliers some flexibility in meeting the target levels of spend agreed is for BERR. Should suppliers have any concerns that they will not meet their social spend target in any year that they should raise this with BERR before the end of the reporting period to agree a way forward.

7. Suppliers' overall pricing strategies

Chapter summary

This chapter sets out our final proposals for including analysis of suppliers' overall tariff and pricing strategies and the contribution that these make to alleviating fuel poverty in our monitoring framework.

7.1. Whilst our monitoring framework will focus on suppliers' social spend across a range of initiatives, we consider that it is also important to take into account a supplier's overall tariff structure in considering the contribution they make to alleviating fuel poverty and to provide important additional context to suppliers' activities in this area.

7.2. We recognise that for a consumer, or consumer adviser, the critical question in considering a social tariff is how that tariff compares with other tariffs that may be available either from the customer's own supplier or more widely in the market. Given the range of tariffs available it is important that customers can be confident that if they go onto a supplier's social tariff they are getting the best deal available to them.

Our proposed approach (May 08)

7.3. We proposed to continue to publish comparative information showing the savings that a customer receives from being on a social tariff as against other tariffs available from their own supplier and in the market more widely. This information would be provided for gas, electricity and dual fuel.

7.4. We also proposed to undertake analysis to show the difference for each supplier against the average price paid by fuel poor customers on a per account basis reflecting the actual mix of gas and electricity accounts for that supplier.

Respondents' views

7.5. There was broad agreement from respondents with our proposals and recognition that publishing comparative information on suppliers' overall pricing strategies provides a useful context against which to review the suppliers' social tariffs.

7.6. One supplier advocated a simpler method for reviewing the suppliers' pricing strategies by showing the average dual fuel bill of a fuel poor customer for each supplier based on an acceptable payment method mix of fuel poor customers.

Decision

7.7. We will publish comparative information which shows the savings that a customer receives from being on a social tariff as against a mix of other tariffs available from that supplier and in the market more widely. We will publish comparisons against the industry's best tariff. In looking at best tariffs we will not include fixed rate deals as the attractiveness of these may vary over time and there is often a limited window within which to apply. However, it should be noted that in some cases these may provide more attractive options for certain customers. We will publish comparative information on the different tariffs offered by suppliers for different payments methods for gas, electricity and dual fuel.

7.8. We will also include analysis to show the difference in each supplier's average annual gas and electricity bill weighted by the proportion of fuel poor customers on each payment method.

8. Ofgem's monitoring role

Chapter summary

This chapter sets out our final proposals for monitoring and reporting on suppliers' social spend.

Financial year monitoring and reporting

8.1. We will monitor and report on suppliers' social programmes on a financial year basis (1 April to 31 March each year).

8.2. We will monitor and report on suppliers' social programmes for 2007-08 using the revised framework and this will set the baseline level of spend which suppliers have agreed with Government to increase to £150m by 2010-11.

Continue to undertake a joint Ofgem/BERR survey

8.3. We will continue to issue a joint questionnaire with BERR to gather the information required to monitor suppliers' social programmes and associated spend. This joined-up approach reduces the reporting and administrative burden for suppliers.

8.4. Further changes may be required to the questionnaire to ensure that it captures all the information required for the revised monitoring framework. We will collect any additional information required from suppliers for 2007-08 over the remainder of the summer and amend the questionnaire for 2008-09 onwards.

Company assurance and reporting

8.5. In order to ensure that the data we receive from suppliers is assured and comparable, we proposed to introduce a requirement for the Chair of each Board to sign off the figures submitted to Ofgem for the purposes of monitoring that supplier's social spend.

8.6. The majority of respondents agreed with our proposal to require Board sign-off of figures provided to Ofgem. Two suppliers disagreed with this approach and suggested their submissions be signed-off at Director level instead. One supplier recommended that we do not specify the level of sign-off required.

8.7. Two respondents recommended that all data provided by the suppliers should be independently audited to ensure accuracy and to assess whether the initiatives have been effectively targeted.

8.8. Our conclusion is that we will require sign-off of the information submitted to Ofgem, for the purposes of monitoring suppliers' contributions towards their social spend targets, by the Chairman of the main Board of the supplier's UK business. This requirement will be incorporated for reporting from 2007-08 onwards. This will ensure that all spend towards the suppliers' target will be monitored in the same way including the data used for setting the baseline.

8.9. We recognise that for the 2007-08 period the joint BERR/Ofgem questionnaire has closed, we will therefore seek this assurance prior to publishing our review in September 2008. In future years we will require this assurance alongside the data submissions as part of the joint questionnaire.

Annual Report

8.10. Three respondents to the consultation recommended that, in addition to annual reporting, we conduct half-yearly reporting.

8.11. A number of the suppliers raised a concern that if we identify any supplier has not met its target in a given year that we contact the supplier in the first instance to discuss the issues.

8.12. We will continue to report annually on suppliers' social programmes including progress towards their social spend targets agreed with Government. We do not, however, intend to carry out half-yearly reporting due to the increased administrative burden that this approach would place on suppliers and Ofgem.

8.13. Before publishing our annual report, we will flag to BERR any concerns regarding suppliers' compliance with their social spend targets. If a supplier has any concerns that they will not meet their social spend target in any year they should raise this with BERR before the end of that year's reporting period.

Best practice

8.14. There was broad support to include examples of best practice in our reporting. We will adopt our proposed approach and as part of this we will look in particular at how effectively suppliers are targeting their social initiatives.

Maintain an inputs-based approach

8.15. A number of respondents recommended that we publish both inputs and outputs based reporting to provide a more complete picture of the impacts of suppliers' initiatives as well as the costs.

8.16. energywatch proposed that we include similar analysis to that used by Cornwall Energy Associates in their 'Proportionality of suppliers' social tariffs'⁸ publication (2007). This included an assessment of each suppliers' social spend as a proportion of their individual and joint turnover and as a proportion of their customer base.

8.17. We consider that an inputs-based approach remains most appropriate given the purpose of this monitoring framework is to report on suppliers' progress towards their social spend targets. As noted above, we intend to include examples of best practice in our reporting which will capture some of the most effective of suppliers' initiatives without requiring explicit reporting from suppliers on outputs or outcomes of all their initiatives.

8.18. We recognise the value of assessing the outcomes for customers of the agreement between Government and suppliers and the impact on levels of fuel poverty. Government reports annually on its fuel poverty strategy, the delivery mechanism through which it works to achieve its statutory fuel poverty targets. This annual report assesses the impact of measures aimed at reaching Government's targets for eradicating fuel poverty. It is for Government to decide how best to report on the outcomes of this three year agreement and its impact on the Government's fuel poverty targets.

8

http://www.energywatch.org.uk/uploads/Proportionality_of_suppliers_social_tariffs_13_January_2008.pdf

9. Next steps

9.1. We intend to publish a report each summer using this monitoring and reporting framework for at least the duration of this agreement (until 2011). The 2007-08 period will be the first year reported against this revised framework and will clarify the baseline figure of suppliers' social spend and any revisions to the target spend levels for the 2008-11 period. We intend to publish this report in September 2008.

9.2. Any questions on this monitoring and reporting framework for suppliers' social spend, should in the first instance be directed to:

Name: Angela Bourke

Team: Consumer and Social Affairs

Address: Ofgem, 9 Millbank, London SW1P 3GE

Tel: 0207 901 7306

Email: angela.bourke@ofgem.gov.uk

Appendices

Index

Appendix	Name of Appendix	Page Number
1	Consultation questions	33
2	The Authority's Powers and Duties	35
3	Glossary	37
4	Feedback questionnaire	38

Appendix 1 - Consultation Questions

1.1. In our consultation document 'Monitoring suppliers' social initiatives: Proposed reporting framework' Ref 68/08, we sought the views of respondents about a number of questions as set out below:

CHAPTER 2:

- ➔ Question 1: What should the qualifying criteria be for a social tariff? Do you agree with our proposed approach?
- ➔ Question 2: Do you agree with the changes we have proposed to calculate suppliers' contributions from their social tariffs?
- ➔ Question 3: What are the potential implications and benefits of assessing a supplier's social tariff against the lowest available for that payment method?

CHAPTER 3:

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

CHAPTER 4:

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

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?
- ➔ Question 8: How do we ensure robust and true additionality in suppliers' calculations of their energy efficiency spend above their statutory obligations?
- ➔ Question 9: Do you agree with our approach to include efficient administration costs where they relate to specific projects involving joint working across industry?

CHAPTER 6:

- ➔ Question 10: Do you agree with our proposed approach to calculating suppliers' contribution towards their social spend targets?
- ➔ Question 11: Do you agree with our proposed approach to setting the baseline spend?

CHAPTER 7:

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

CHAPTER 8:

- Question 13: Do you agree with our proposed approach to our monitoring role?
- Question 14: Do you agree with our proposal to require assurance from the Board of each supplier to ensure data accuracy?

List of Respondees

List	Name
1	British Gas
2	Citizens Advice Bureau (CAB)
3	Counsel and Care
4	David Taylor MP
5	eaga plc
6	Energy Action Scotland (EAS)
7	Economic Consulting Association
8	EDF Energy
9	energywatch
10	E.ON
11	Energy Retail Association (ERA)
12	Help the Aged
13	National Energy Action (NEA)
14	National Right to Fuel Campaign
15	National Insulation Association
16	NCC
17	npower
18	Parliamentary Warm Homes Group
19	ScottishPower
20	SSE
21	Warm Zones Limited

Summary of Responses

Responses received by Ofgem which were not marked as being confidential have been published on Ofgem's website www.ofgem.gov.uk. Copies of non-confidential responses are also available from Ofgem's library.

Appendix 2 – The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.⁹

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly¹⁰.

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them¹¹; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.¹²

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

⁹ entitled "Gas Supply" and "Electricity Supply" respectively.

¹⁰ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

¹¹ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

¹² The Authority may have regard to other descriptions of consumers.

-
- Promote efficiency and economy on the part of those licensed¹³ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
 - Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
 - Contribute to the achievement of sustainable development; and
 - Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation¹⁴ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

¹³ or persons authorised by exemptions to carry on any activity.

¹⁴ Council Regulation (EC) 1/2003

Appendix 3 - Glossary

B

[BERR](#)

(Department of) Business, Enterprise and Regulatory Reform

[BEC](#)

Benefit entitlement check

C

[CERT](#)

Carbon Emissions Reduction Target

[CSR](#)

Corporate Social Responsibility

D

[DD](#)

Direct Debit

[DWP](#)

Department for Work and Pensions

E

[EEC](#)

Energy Efficiency Commitment

F

[FPAG](#)

Fuel Poverty Advisory Group

H

[Heatstreets](#)

E.ON HeatStreets is an initiative to install energy efficiency measures in homes. E.ON works with local councils on joint funded projects in selected areas across the country to install a range of energy saving measures.

[Home Heat Helpline](#)

The Home Heat Helpline is a free, central phone number offering practical energy advice for people concerned about paying their energy bills. To speak to a specially trained advisor for free advice call 0800 33 66 99.

P**Prepayment meter (PPM)**

Prepayment meters currently use electronic tokens, keys or cards to enable an amount of energy to be bought by the consumer to be used. The consumer needs to be provided with a network of outlets where tokens can be purchased or card and keys can be charge up. This network of outlets needs to be linked to a payment settlement system for suppliers.

S**SC**

Standard Credit

W**Warm Zones**

Warm Zones aim to identify all households that need help (in particular the vulnerable and fuel poor) in a given area and give them all available help in a concentrated, cost-effective way. Warm Zones are typically funded through partnerships with local government, European Union agencies, energy companies and other supporters. Further information on Warm Zones can be found at: <http://www.warmzones.co.uk>

Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

- Does the report adequately reflect your views? If not, why not?
- Does the report offer a clear explanation as to why not all the views offered had been taken forward?
- Did the report offer a clear explanation and justification for the decision? If not, how could this information have been better presented?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand, could it have been better written?
- Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul

Consultation Co-ordinator

Ofgem

9 Millbank

London

SW1P 3GE

andrew.macfaul@ofgem.gov.uk