

**March 2001**

**Social Action Plan  
Annual Review**

## **Executive summary**

Four and a half million households in Great Britain are in fuel poverty, which means they need to spend more than 10% of their household income on energy to maintain a satisfactorily warm home.

Low income, poor housing conditions and energy costs contribute to the causes of fuel poverty. Ofgem has a clear role to play in respect of the last of these. Low energy costs, achieved by the spread of competition and effective price regulation, have had the effect of lifting 700,000 households out of fuel poverty in the three years up to 1999.

To support its general work to keep prices as competitive as possible and ensure that all customers can take up the benefits of a competitive market, Ofgem published a Social Action Plan in March 2000. The plan brought together the work which Ofgem had been undertaking to help those who face fuel poverty. This document is the first annual review of progress on Ofgem's Social Action Plan.

### **The past year**

During the year, Ofgem contributed substantially to the Fuel Poverty Strategy which was published by the Government for consultation on 23 February 2001. Effective co-ordination across Government is essential if real progress is to be made, and Ofgem continues to be committed to contributing towards alleviating fuel poverty in line with our statutory responsibilities. A great deal needs to be done if the Government's target of removing vulnerable households from fuel poverty by 2010 is to be achieved.

Ofgem believes it is very important that those on low incomes gain benefits from competitive energy markets in the same way as other customers, with suppliers having maximum encouragement to innovate to provide high quality services to the fuel poor as part of the competitive marketplace. Our MORI research shows that many disadvantaged groups are taking advantage of switching at least as much as other groups of consumers.

One of the most important elements of the Plan has been the development of a number of major initiatives by energy companies to help address the needs of the fuel poor. Ofgem has encouraged these initiatives strongly. Some of these initiatives offer new ways to pay, to help households on low incomes manage their fuel bills better. Other schemes provide a package of advice and assistance with energy efficiency measures, including the grants which suppliers make available under their Energy Efficiency Standards of Performance programmes. Other schemes help extend access to financial services to customers

without bank accounts, so they can benefit from cheaper tariffs. Ofgem will follow the development of these initiatives closely, and encourage new ones.

There have been several important elements to Ofgem's work on the Social Action Plan this year. First, Ofgem has strengthened the licence obligations on energy companies to provide protection to customers with payment difficulties, to ensure prepayment meter customers receive decent service, to entitle the elderly, disabled and chronically sick to a range of special services, and to provide for energy efficiency advice to be made available by the companies. Second, agreement has been reached to improve the operation of Fuel Direct, which enables customers receiving benefits who are in debt to energy suppliers to have their fuel bills deducted direct from their benefits. This is of particular assistance to some customers in helping with their budgeting. Third, we have improved the quality and accessibility of information available on price comparisons.

Fourth, the substantial research programme which is part of the Social Action Plan has made progress. Research into self disconnection and rationing by prepayment and low income customers, into provision of energy efficiency advice, and better prevention and management of debt, is now complete. It confirms our MORI survey conclusion that a large proportion of prepayment meter customers value such meters highly because of the assistance they provide in budgeting.

### **The year ahead**

Looking to the coming year, we have three key priorities for our work on Ofgem's Social Action Plan. First, we shall assess what action should follow from the research projects. We already envisage organising a "Summit" to consider how energy efficiency advice can be made available more effectively to the fuel poor. We will also give strong encouragement to social banking initiatives which enable low-income customers easier access to cheaper tariffs. Second, we are committed to effective monitoring each quarter of suppliers' performance in relation to the Social Action Plan, and to publicising this information so that the issues that this raises can be widely considered. Third, we shall be working with suppliers to make progress in reducing the number of customers in debt who cannot switch to take advantage of competition. We are currently discussing with suppliers a trial which would limit such debt blocking. We hope that the trial will lead to more permanent proposals for reform.

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# 1. Introduction

## *Purpose of this document*

1.1 In March 2000 Ofgem published its *Social Action Plan*, which set out a programme of work for Ofgem to undertake, with others, to tackle fuel poverty. This document reviews our progress one year on, and in particular:

- ◆ identifies the regulatory changes and policy initiatives that we have pursued in the past year to increase protection for vulnerable customers and remove the barriers which prevent them participating in the competitive market;
- ◆ reviews the progress of the seven research projects that we announced in March 2000;
- ◆ considers how the industry and others have responded to the social agenda;
- ◆ examines how Ofgem can continue to make a contribution to reducing fuel poverty.

## *Background*

1.2 It is estimated that four and a half million households in Great Britain are in fuel poverty, which means that they need to spend more than 10% of their household income on energy to maintain a satisfactorily warm home. Low income, poor housing conditions and energy costs contribute to the causes of fuel poverty.

## **Government's Fuel Poverty Strategy**

1.3 The Government published for consultation on 23 February 2001 its Fuel Poverty Strategy<sup>1</sup>, which contains the target that the Government will seek an end to the blight of fuel poverty for vulnerable households by 2010. In practice, this means it is committed to introducing measures which should have the effect that no older household, no family with children, and no householder who is

disabled or has a long-term illness, need risk ill health due to a cold home. The Government intends to tackle fuel poverty in other households once progress has been made on the priority vulnerable groups.

- 1.4 Ofgem has welcomed the Government's draft Fuel Poverty Strategy, and is committed to continuing to work in partnership with Government, industry and other agencies to tackle fuel poverty. Ofgem has a clear role to play in respect of energy costs. As acknowledged in the Strategy, falling energy prices, achieved by the introduction of competition and effective regulation, have had the effect of lifting 700,000 households out of fuel poverty in England in the three years up to 1999. This was the largest single factor in lifting one million households out of fuel poverty over this period. Ofgem also has a role in improving the energy efficiency of the housing stock.

#### **Social and Environmental Guidance**

- 1.5 The social dimension to Ofgem's role arises through duties the Gas and Electricity Acts, as amended by the Utilities Act 2000, place on the Gas and Electricity Markets Authority in respect of a number of groups within society, namely the disabled or chronically sick, pensioners, those on low incomes and those living in rural areas.
- 1.6 Also, under the Acts, the Gas and Electricity Markets Authority is required to have regard to social and environmental guidance, to be issued by the Government, when discharging its statutory functions to which its general duties apply. The Government intends that in this way the Authority can make a contribution, appropriate to its functions and duties, towards the wider social and environmental objectives of the Government, without compromising the principle of arm's length regulation.
- 1.7 The Government is preparing to consult again shortly on the content of the social and environmental guidance, following a preliminary draft which was published in February 2000. Ofgem will take account of the guidance, when available in its final form, in the further development of the Social Action Plan.

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<sup>1</sup> The UK Fuel Poverty Strategy Consultation, published by DETR, February 2001

## 2. Overview

### *Progress against the Social Action Plan*

2.1 Ofgem's approach to the Social Action Plan has been to focus on areas that we believe will provide the most benefits to vulnerable customers and the fuel poor. In doing this, we have tried to take full account of the actions of others, including Government, and to set out clearly the contribution of the industry and of regulation. Our aim has been to ensure that the Plan works effectively against the background of increasingly competitive markets, which bring benefits across all customer groups.

2.2 The Social Action Plan published in March 2000 therefore set out a programme of work in four principal areas:

- ◆ licence changes to enhance delivery of suppliers' social obligations;
- ◆ regulatory and policy initiatives to remove barriers which impede the fuel poor from benefiting more fully from competition;
- ◆ further research into areas where more information is considered necessary to determine next steps; and
- ◆ improvements in monitoring and the development of a range of key indicators for measuring progress.

2.3 Ofgem's work in these areas over the last year has focussed on the following issues:

- ◆ input into the Government's Fuel Poverty Strategy;
- ◆ encouraging suppliers to develop a range of innovative new schemes to help the fuel poor;
- ◆ steps to put further downward pressure on prices through developments in competition, New Electricity Trading Arrangements (NETA) and price controls;



- ◆ licence changes and revised Guidance Notes to improve the delivery of suppliers' social obligations, resulting in new Codes of Practice;
- ◆ design and implementation of improved monitoring arrangements for suppliers' social obligations;
- ◆ improvements to the operation of Fuel Direct for customers in receipt of means-tested benefits;
- ◆ continued developments in the publication of comparative price information for customers, including research into their needs;
- ◆ operation of the third Energy Efficiency Standards of Performance (EESoP) scheme, in which 65% of the funding is directed to disadvantaged customers;
- ◆ further research into competition in the electricity and gas markets;
- ◆ supporting companies' work on a number of research projects; and
- ◆ development of proposals for reducing the right of suppliers to block the transfer of customers in debt.

2.4 This work is described in more detail in subsequent sections of this report.

### *Measuring Progress*

#### **Social Indicators**

2.5 The Social Action Plan set out twelve key indicators to measure and review progress, as follows:

- ◆ percentage of customers experiencing fuel poverty;
- ◆ number of customers using prepayment meters;
- ◆ debt repayment levels;
- ◆ amount of tariff and payment choice;
- ◆ disadvantaged customers and competition;

- ◆ number of households on the Priority Service Registers;
- ◆ number of disconnections;
- ◆ rate of self-disconnection;
- ◆ availability of effective energy efficiency advice;
- ◆ number of warm homes initiatives;
- ◆ level of customer satisfaction; and
- ◆ level of prices.

2.6 We are using data from a range of data sources, including MORI, Department of Trade and Industry (DTI) and Ofgem's own monitoring, in the development of these indicators. From April 2001 Ofgem will be improving the quality of its monitoring performance in line with suppliers' Codes of Practice, which should enhance the data available. Appendix 1 sets out the most recent data we have. We are working closely with the DTI, which has established a Fuel Poverty Monitoring and Technical Group, to develop an even wider range of indicators as part of the Government's Fuel Poverty Strategy.

#### **MORI research into the competitive market**

2.7 Research undertaken on Ofgem's behalf by MORI examined customers' experience with competition<sup>2</sup>. By the end of 2000, some 30% of gas customers were no longer supplied by British Gas Trading (BGT), and some 20% of electricity customers were no longer supplied by their regional electricity company. MORI found that 93% of electricity and 90% of gas customers who have so far switched their supplier found the process easy.

2.8 Four key findings of the research were:

- ◆ customers in social groups C1, C2, D, and E were taking greatest advantage of domestic gas competition and have switched the most (between 28 per cent and 32 per cent). By comparison those in social group AB had switched least (25 per cent). All social groups were taking

similar advantage of domestic electricity competition (between 18 per cent and 20 per cent switching);

- ◆ other groups of particular concern to Ofgem - people with disabilities, one-parent families and those not working - were all switching at around or above average levels in both electricity and gas. However, households on very low incomes and those on prepayment meters lag behind other groups;
- ◆ customers living in rural areas were just as likely to have taken advantage of domestic gas competition as those in urban areas (29 per cent of both groups had switched). There was not much difference in switching in electricity (17 per cent rural, 20 per cent urban);
- ◆ 92 per cent of gas prepayment customers and 94 per cent of electricity prepayment customers were satisfied with their payment method. Around three quarters of prepayment meter customers wanted to continue using a prepayment meter - principally because of the help it provides in budgeting - even if they could use another payment method which would be cheaper.

2.9 In following up on this research, Ofgem has agreed to work with Help the Aged and energywatch to ensure that the benefits of switching are more widely understood by groups who would benefit significantly, including older people and customers on low incomes.

### *Prices*

2.10 Ofgem has an important role to play with regard to energy prices. Our approach is to create pressure on prices through effective competition where possible, and through tough price regulation where competition is not possible, namely the natural monopolies of the transport systems for gas and electricity. Domestic gas and electricity prices have fallen in real terms by 20% and 19% respectively since 1990. Falling energy prices had the effect of lifting 700,000 households out of fuel poverty in England in the three years up to 1999. In this period

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<sup>2</sup> Experience of the competitive domestic electricity and gas markets – Research study conducted for Ofgem by MORI, published by Ofgem, January 2001 08/01

reduced energy costs have had a greater impact on alleviating fuel poverty than any other measure.

- 2.11 Prepayment meter customers often pay more than others because provision of their method of payment can be the most expensive to provide. Ofgem has taken a number of steps to keep a downward pressure on the prices prepayment meter customers pay. In April 2000 Ofgem introduced a ceiling of £15 for Public Electricity Suppliers (PESs) as the maximum additional annual cost over that of quarterly credit customers that they are able to charge. Prepayment meter customers of BGT pay the same as standard credit customers, and new price controls to be introduced in April 2001 will cap the differential with direct debit tariffs. However many customers in fuel poverty, particularly pensioners, do not use prepayment meters. While ensuring that prepayment meter customers continue to obtain good value, Ofgem is also keen to explore alternative methods of payment which give low-income customers equivalent control of their budgeting at lower cost.

### ***Research projects***

- 2.12 An important component of the Social Action Plan is a series of research projects designed to establish the direct experience and needs of customers and to help inform future policy making. Three of the seven research projects identified have been completed, with the remaining projects to be completed by the end of 2001. The completed projects cover: self-disconnection and rationing and energy efficiency advice, both sponsored by major suppliers through the Electricity Association (EA) Fuel Poverty Task Force; and a project on better debt prevention and management, sponsored by Powergen.
- 2.13 The findings of these research projects increase our understanding of the needs of low-income customers in some important areas:
- ◆ research carried out for the EA Fuel Poverty Task Force confirms that the majority of prepayment meter customers prefer this method of payment, because they like to pay as they consume. It is clear that, in order to gain customer acceptance, alternatives to prepayment meters need to provide equivalent financial control and means to budget;

- ◆ self-disconnection is a significant problem for a small number of customers with a prepayment meter. Around 25% of prepayment meter customers had self-disconnected in the past year, but for most this was not a frequent occurrence.
- ◆ prepayment meter customers have a greater need for energy efficiency measures, particularly those living in private rented accommodation;
- ◆ insufficient energy efficiency advice has reached customers on low incomes. There is a need to work with trusted contacts to get the message across, to tailor advice specifically to customers' circumstances and to improve the quality of advice;
- ◆ suppliers should be sensitive to the underlying causes of indebtedness, and offer a range of help and assistance to suit customers' circumstances. It is important to encourage early contact where customers face difficulties, and to establish the extent of their problems;
- ◆ for those low-income customers who have not switched suppliers, lack of confidence in new suppliers seems to be a significant barrier.

2.14 Ofgem will be working with energy suppliers and consumer agencies to take these research findings forward. As part of the strategy for metering, we are examining appropriate incentives to encourage manufacturers and suppliers to reduce the cost of prepayment meters and to innovate. We will continue to encourage the development of suitable alternative payment methods. This includes continuing our work to ensure that Fuel Direct is implemented properly, that work is done to introduce a new scheme of direct deductions for people on benefits, and that developments on social banking are supported.

2.15 The research findings support continuing work by suppliers to find ways of identifying customers in fuel poverty, in order to increase awareness of the types of help available, and to improve the provision of advice. We plan to host an 'advice summit', bringing together key players concerned with advice giving, including Local Authorities, to consider the findings of the research on energy efficiency, which go wider than advice provision by suppliers. We also plan to develop guidelines on energy efficiency advice.

- 2.16 In Section 4 we describe the research findings in more detail and explain how we intend to take matters forward with consumer agencies and suppliers.

### ***Industry Initiatives***

- 2.17 In the Social Action Plan, Ofgem pointed to several innovative approaches which companies had announced, including Transco's 'Affordable Warmth' programme, and to discussions we were having with suppliers on further new developments. In the past year, the incentive of the Social Action Plan and work on the Government's Fuel Poverty Strategy has led to the introduction of further new schemes.
- 2.18 With 4.5 million households estimated to be in fuel poverty – some 20% of domestic customers – this market sector represents a significant commercial opportunity for energy companies. It has particular value because of the opportunities for innovation and market differentiation, and for partnerships with others. The development of new schemes by companies has proved one of the most successful elements of the Social Action Plan. These schemes are commercially driven, and show what can be achieved by giving companies the right market environment in which to innovate. It is doubtful that regulation alone would have resulted in the range of opportunities which have been seen to date. These schemes address some of the barriers that hinder progress in overcoming fuel poverty.

### **New ways to pay**

- 2.19 Reducing the cost of energy gives low-income customers greater flexibility in their spending priorities, and helps address concerns about being able to budget effectively and keep warm.
- ◆ New tariffs aimed at those on low incomes include TXU's 'Staywarm' scheme and Yorkshire Electricity's 'HEATplan'.

### **Advice and energy efficiency**

- 2.20 Often households are unaware that they can benefit from advice or grant assistance. Suppliers are helping to address this barrier:

- ◆ BGT's 'Warm-a-Life' scheme is aimed at helping vulnerable households through referral to energy efficiency grant schemes, a free benefits check and a one off reduction in energy bills;
- ◆ Scottish Power's 'NEST Makers' scheme, which is run through an independent company jointly owned with the EAGA Partnership, is based on provision of advice through a network of local energy advisers;
- ◆ Powergen and Age Concern have set up Age Concern Energy Services which offers a number of benefits, including advice, a non-disconnection policy, and free heating in very cold weather;
- ◆ npower's 'Health Through Warmth' scheme will train district nurses, health visitors, and voluntary workers to offer advice to people they visit.

### **Financial services**

2.21 Ofgem has been a supporter of the work of the Social Exclusion Taskforce, the banks and the Post Office, in extending access to financial services to low-income households. Without suitable bank accounts, households are denied access to the cheapest payment options such as direct debit. We have been encouraged by progress in this area during the past year. The development of basic bank accounts by the High Street banks, and agreement in principle between the major banks and the Post Office for the development of Universal Banking services, are important steps forward. We will work with suppliers to help ensure customers benefit from these initiatives through the opportunity to pay by cheaper tariffs.

2.22 Several industry initiatives are also encouraging:

- ◆ BGT has linked with Bank of Scotland to provide special bank accounts in order to give customers on regular payment plans access to direct debit terms. A joint initiative from Scottish Power and Royal Bank of Scotland also promotes the benefits of a bank account to customers without one;
- ◆ npower is funding work by National Energy Action (NEA) and New Economics Foundation (NEF) into the development of community

investment partnerships, based on credit unions, in order to make a range of services available to low-income customers.

2.23 In Section 5 we discuss the industry initiatives in more detail.

### ***Review Group***

2.24 The Review Group set up to assist on the Plan met on two occasions during 2000. Its members are:

Mike Alexander, Managing Director, BGT

Charles Berry, Director, Energy Supplies Division, Scottish Power

William Gillis, Director, National Energy Action

Dr Caroline Harper, Managing Director, Amerada Hess Gas

Peter Lehmann, Chairman, Energy Saving Trust (EST) and Benefits Agency Standards Committee

Dr Gill Owen, Chairman, Public Utilities Access Forum

Ann Robinson, Chairman, Gas and Electricity Consumers Council (energywatch)

Phillip Turberville, Chief Executive, TXU Europe

Anna Walker, Director General (Energy), Department of Trade and Industry

Mike Young, Director, British Banking Association

2.25 The Group has considered the Social Action Plan work programme. Among other issues, the Group has discussed the contribution of individual company initiatives, developments in social banking and Fuel Direct, and the scope for partnerships between energy companies and other agencies. The Group has recommended that Ofgem give particular attention to the following issues in the further development of the Plan:

- ◆ fostering new fuel poverty initiatives by the energy companies
- ◆ increasing participation in the competitive market by prepayment meter customers;
- ◆ improving in technology and infrastructure for meters, including prepayment meters, to reduce costs;



- ◆ supporting the development of practical alternatives to prepayment meters, which meet customers needs for budgeting;
- ◆ improving debt prevention and management;
- ◆ developing the synergy between social action and environmental action;
- ◆ co-ordinating more effectively the wide range of initiatives on fuel poverty including energy efficiency advice;
- ◆ analysing the results of the research projects and promoting good practice.

### 3. Regulatory and policy initiatives

- 3.1 The Social Action Plan put forward a number of priorities for regulatory action. In the past year Ofgem has addressed these in a number of ways.
- 3.2 We have amended licences so as to require all domestic gas and electricity suppliers to produce revised Codes of Practice and have introduced a new system for monitoring their performance under these. We have also agreed arrangements with the Department of Social Security (DSS) and suppliers to improve the operation of the Fuel Direct scheme.
- 3.3 Under EESoP 3 we now require all domestic gas and electricity suppliers (that supply over 50,000 customers) to meet energy efficiency targets. This will ensure that over £70 million is directed towards disadvantaged customers over two years.
- 3.4 We have looked at the existing arrangements for objections to transfer, and have proposed ways forward that reduce the right of suppliers to block the transfer of customers in debt. We have examined the difficulties customers have when faced with confusing information about prices, and continue to refine the data we publish. Finally, we have set out a strategy on metering, which aims to reduce the cost of meters and promote innovation.

#### ***New Codes of Practice and monitoring arrangements***

- 3.5 One of our key undertakings in the Social Action Plan was to introduce a number of licence changes designed to improve the delivery of suppliers' social obligations. In May 2000, following a period of consultation, Ofgem set out details of the licence changes and new Guidance Notes for suppliers' Codes of Practice. The licence changes meant that, for the first time, all domestic suppliers would be required to produce Codes of Practice on the following:
- ◆ Payment of bills and dealing with customers in difficulty
  - ◆ Energy efficiency advice
  - ◆ Use of prepayment meters
  - ◆ Services for customers who are elderly, disabled or chronically sick

- ◆ Services for customers who are blind or deaf
- 3.6 The new Codes of Practice enhance the provision of services to disadvantaged customers and align electricity and gas obligations in line with best practice where possible. The changes deliver improvements in the following ways:
- ◆ increased access to payment facilities for customers paying frequently by cash;
  - ◆ a new Code to ensure better information and services for prepayment meter customers;
  - ◆ a more proactive approach to the prevention of debt, through early contact with customers;
  - ◆ a better dialogue with customers in debt and an obligation to take into account the customer's ability to pay when negotiating debt repayments – the Codes now say that customers on benefit will not normally be asked to pay more than the Fuel Direct rate (currently £2.65 a week);
  - ◆ improved promotion and provision of energy efficiency advice, in particular for customers on low incomes or those with payment difficulties – with such customers being directed towards grant schemes such as New Home Energy Efficiency Scheme (HEES) and EESoP; and
  - ◆ improved promotion and provision of services for vulnerable customers, including customers who are blind, partially sighted, deaf or hard of hearing.
- 3.7 We approved the new Codes of Practice in October 2000, following a period of consultation with the relevant Electricity Consumers' Committee and Gas Consumers Council (now energywatch).
- 3.8 Since September 2000 we have been developing new monitoring arrangements to help keep a check on suppliers' compliance with their revised Codes of Practice. To help us with this we established a working group (including representatives from suppliers, energywatch and consumer groups) with a brief to advise us on the information that suppliers should be required to submit to Ofgem and energywatch, and to publish.

3.9 Following discussion with the group and consultations with suppliers and energywatch, we issued a decision document in February 2001 that set out the final monitoring return and accompanying guidance<sup>3</sup>. The new monitoring return requires suppliers to provide information on:

- ◆ numbers of customers on different payment schemes;
- ◆ numbers of customers in debt;
- ◆ the size of weekly debt repayments (for both prepayment meter and credit customers);
- ◆ disconnections;
- ◆ customers on the Fuel Direct scheme;
- ◆ warrants of entry;
- ◆ security deposits;
- ◆ prepayment meter services;
- ◆ Priority Service Register, how companies promote it and the take up of special services;
- ◆ the provision of energy efficiency advice, particularly for disadvantaged customers and customers with payment difficulties;
- ◆ the number of frequent payment outlets.

3.10 This data will be collected quarterly, with suppliers also being obliged to publish an annual report. Ofgem and energywatch will be publishing this data.

### ***Fuel Direct***

3.11 A report was prepared by a working group put together by Ofgem, with the remit to examine the operation of Fuel Direct, to identify areas for improvements for customers and suppliers<sup>4</sup>. The working group has been chaired by Peter

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<sup>3</sup> Monitoring domestic electricity and gas suppliers' performance under their codes of practice, published by Ofgem, February 2001 12/01

<sup>4</sup> Social Action Plan: Report from Working Group on Fuel Direct, January 2001 06/01.

Lehmann (Chairman of the EST and the Benefits Agency Standards Committee). It includes representatives of Government Departments, the EA Fuel Poverty Task Force (including BGT) and energywatch. This report, which was published in January 2001, includes recommendations on improvements to the scheme, which have been accepted by the DSS, the Benefits Agency and Ofgem.

3.12 Fuel Direct helps benefits claimants on Income Support and Income Based Job Seeker's Allowance threatened with disconnection for non-payment, by making payments directly from their benefits. It is operated by the DSS and the Benefits Agency. In practice the scheme provides protection for a small group of customers for whom a prepayment meter is not a practical option.

3.13 The working group's report noted that the numbers on Fuel Direct have been reducing. There was evidence that the scheme does not always operate as it should. To assist the working group, workshops were held to facilitate discussions between suppliers, the DSS and the Benefits Agency on improvements in the operation of the scheme. The EA Fuel Poverty Task Force had a key role in co-ordinating suppliers' views on the scheme and organising the workshops. The working group recommended a number of specific actions, to make Fuel Direct as effective as possible in identifying and supporting those vulnerable customers most in need of help. These are to ensure that:

- ◆ suppliers properly draw the attention of appropriate customers to the option of Fuel Direct, in compliance with their licence obligations to accept deductions;
- ◆ neither the supplier, nor the Benefits Agency, objects if Fuel Direct is the most suitable payment option for the customer, adopting a consistent basis for assessing suitability in accordance with the qualifying criteria;
- ◆ customers who remain on appropriate benefits can remain on Fuel Direct after their debt has been cleared where this remains the most suitable payment option for them;
- ◆ effort is made to prevent abuse and the frequent movement of customers who are in debt in and out of Fuel Direct by the introduction of appropriate controls;

- ◆ customers on Fuel Direct are given energy efficiency advice, including drawing their attention to grant assistance under HEES and EESoPs.
- 3.14 The working group developed guidance for use by suppliers and the Benefits Agency in assessing customers' suitability for Fuel Direct, together with a standard application form for use by suppliers. These will promote consistency and make the scheme more easily accessible. The guidance and application form came into operation on 1 March 2001.
- 3.15 The working group looked at potential future developments concerning Fuel Direct. The Government has announced that, from 2003, payment by automated credit transfer (ACT) into bank accounts will be the norm for paying benefits. Associated with this, efforts are being made by the banks and the Post Office, with the full support of the Government, to widen access to financial services for customers without bank accounts. The working group welcomed the potential for improving access to direct debit tariffs.
- 3.16 The working group also saw potential to introduce a new form of direct deduction scheme for people on benefits, which could operate more cheaply than the current Fuel Direct arrangements. This could be available to benefits claimants who do not use direct debit, whether or not they are in debt, and operate in a similar way to the Irish Household Budgeting Scheme. The working group has welcomed initial proposals from the Post Office for such a scheme, which would operate in association with Universal Banking services. It has drawn up some criteria on a new scheme, as a basis for discussions with the Post Office and other interested parties.

### ***Energy Efficiency Standards of Performance***

- 3.17 The Energy Efficiency Standards of Performance (EESoP 1) were originally introduced in 1994 for England and Wales, and in 1995 for Scotland, as part of the PESs' price controls. The standards have since been extended to include designated second tier electricity and domestic gas suppliers. The Standards oblige each company to achieve specified energy savings with a strong emphasis on the needs of disadvantaged customers. Funding is through a special revenue allowance, which is currently equivalent to £1.20 per domestic customer per fuel per year.

- 3.18 The National Audit Office carried out a detailed independent value for money examination of EESoP 1 in 1998 and concluded that the programme achieved a net present value of £250m with a further £80m worth of comfort savings, in terms of warmer homes and better lighting. The current programme, EESoP 3, which runs until April 2002, has an aggregate savings target of approximately 11000GWh and an allowance of £110M. To date the programme consists of 140 approved schemes with 65% of the schemes' funding being directed towards disadvantaged customers. 'Fridge Savers' is an example of such a scheme. Run on a national basis by most electricity and gas suppliers, the scheme allows customers on benefits to have their existing fridge replaced for an energy efficient one for just £25. BGT is also augmenting an existing HEES scheme (which aims to provide gas central heating to qualifying households) by providing, free of charge, an energy efficient boiler for customers on benefit. Some companies have used some EESoP funding to help develop social initiatives such as npower's 'Health Through Warmth' in the case of npower and BGT's 'Warm-a-life' scheme.
- 3.19 From April 2002 the next round of the Standards will come into effect, to be known as the Energy Efficiency Commitment. Through the Utilities Act 2000, Ministers will become responsible for setting the level and form of the Commitment. DETR published its provisional plans in November 2000. Under these plans, 50% of the energy benefits are to be aimed at customers on benefits.

### ***Debt blocking***

- 3.20 In December 1999 Ofgem issued a consultation document<sup>5</sup> setting out proposals for the reform of arrangements on debt blocking. The document explained that Ofgem's overall objective in seeking reform was the removal of barriers to competition, thus enabling customers to exercise choice of supplier more easily. Ofgem proposed that the right to block a customer's transfer on the grounds of debt should be abolished.
- 3.21 Responding to the document, the majority of suppliers said they were opposed to Ofgem's proposals as they thought these would seriously affect existing debt

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<sup>5</sup> Customers in debt and their access to the competitive market: consultation document, published by Ofgem, December 1999

management processes, resulting in cost escalation with a damaging effect on all customers, and in particular the disadvantaged. Suppliers also said that some customers might use the opportunity to switch suppliers to evade their debts, since customers could not be disconnected for a debt owed to their previous supplier. Suppliers generally commented that prepayment meter customers were unlikely to benefit from reforms given the absence of worthwhile competitive offerings to this group. Consumer organisations, while in principle in favour of reform, also expressed some concerns about the potential impact of Ofgem's proposals. They wanted to see safeguards introduced to ensure that disadvantaged customers were not penalised through being forced to accept credit checks, security deposits or prepayment meters, or harassed by debt collection agents pursuing unrecovered debts. During the year several revised proposals were discussed to try to address these concerns.

- 3.22 The conclusions of a review of competition completed by Ofgem at the end of 2000 found that competition had not developed significantly for prepayment meter customers, in comparison with customers on other payment methods. Ofgem believed that suppliers' blocking of transfers of customers in debt has adversely affected the development of competition. As part of its initial price control proposals for the gas market, Ofgem proposed that BGT should agree to a special condition reducing its right to block customers in debt switching. However, BGT rejected this on the grounds that the issue needed to be tackled through industry-wide agreement. Ofgem has made it clear that resolution of the debt blocking issue will continue to be one of the relevant issues in relation to the review of price controls in both the gas and electricity supply markets.
- 3.23 Ofgem has therefore held further discussions with BGT and other suppliers in an attempt to make progress, including the scope of a trial. Ofgem has requested views from a working group, organised under the auspices of the Gas Forum, and from individual suppliers, on how a proposal from Powergen, involving factoring of debts, and any alternative proposals, could be trailed effectively. Depending on the outcome of a trial, Ofgem would expect to propose modifications to gas suppliers' licences to reduce their ability to block the transfer of customers in debt. Ofgem would also take into account the results of a trial when considering any proposed changes to the rights of electricity



suppliers to block the transfer of customers in debt, under the Master Registration Agreement.

### ***Better pricing information***

- 3.24 It has been generally recognised that difficulty in making meaningful price comparisons is a barrier to switching supplier, particularly for low-income customers and the elderly. Over the past year Ofgem has published price comparison sheets to improve the quality of information available to customers on offers available to them. They are published every two months on the internet and in leaflet form, and allow the customer to take a step-by-step approach to comparing energy prices. Over half a million sheets have either been downloaded or sent out since June 2000. The factsheets are publicised widely, particularly in local newspapers and money advice pages, and have also been publicised on the radio and television. Ofgem has also published guidelines for accrediting independent price comparison services.
- 3.25 In March 2001, Ofgem published the findings of a MORI survey on customer attitudes to pricing information<sup>6</sup>. This found that there remains some confusion over domestic energy prices, even among switchers. The research found that Ofgem's factsheets and various internet sites (providing price comparison services) have been positively received by customers, who feel more likely to consider switching after seeing this information. It was also found that the factsheets could be occasionally misinterpreted or misunderstood and that some customers had no idea where they could obtain them.
- 3.26 Ofgem believes all customers, including those who are fuel poor, should have access to good quality information to enable them to make informed decisions about the choice of suppliers and tariffs available in the market. The results of the market research indicate the key overriding need is for customers to be better informed about the existence of independent comparative pricing information. Ofgem will therefore continue to publish the pricing factsheets and monitor compliance with its guidelines for price comparison services. If, in the future, energywatch wishes to agree a date when it can assume responsibility for this work then Ofgem will arrange a smooth handover to it.

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<sup>6</sup> Attitudes to Price Information: Research Study Conducted by MORI, published by Ofgem, March 2001 21/01

### *Ofgem's strategy for metering*

- 3.27 Ofgem has recently published its strategy for metering<sup>7</sup>. The strategy sets out a programme of work to promote competition and innovation in metering services. In Ofgem's view, greater choice over the provision of metering services will deliver significant value to customers – both in terms of how much they pay for existing services, and more importantly through the promotion of innovation and new technology. These factors could be particularly significant for prepayment customers, where the costs of metering are generally higher and the technology involved is more complex.
- 3.28 The strategy recognises the potential benefits that innovation and the development of new services can bring, such as: more accurate billing (through remote meter reading); development of new tariffs; cheaper prepayment meters, or the development of meters that can switch more easily between prepayment and credit modes.
- 3.29 Ofgem's metering strategy sets out a number of measures to promote the introduction of such technology within the context of a competitive energy supply market. In addition, the strategy also sets out a number of measures to sharpen the incentives of existing providers of metering services to reduce costs and improve service standards, in particular the costs of gas prepayment metering. In the first instance, this work will be taken forward within the scope of the Transco price control review.

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<sup>7</sup> Ofgem's strategy for metering: A consultation paper, March 2001 28/01

## 4. Research Projects

- 4.1 The Social Action Plan identified seven areas where more research was needed in order to determine further action. We have been encouraged by the response of suppliers and consumer groups to our proposals and the way in which they have taken the projects forward. A table showing the organisations that have been co-ordinating each project, details of independent steering group members and timetables for completion can be found at Appendix 3.
- 4.2 We have received results from three of the research projects: *Self-disconnection and rationing*; *Energy efficiency advice*; and *Better prevention and management of debt*. Summaries of each, the main conclusions and details of how we intend to take this work forward are outlined later in the section. We first describe the progress that has been made with the other four projects, which we expect to be completed by September 2001.

### ***Spreading the cost of payment through a prepayment meter***

- 4.3 Norweb is undertaking the pilot project on spreading the cost of payments through a prepayment meter. Some consumer agencies had argued that certain prepayment meter customers might benefit from spreading their payments over 12 months rather than having to pay significantly more in the winter months. Early signs are that prepayment meter customers prefer to pay for fuel as they use it to retain control of their money. In March 2000 Norweb invited 300 customers who have electric heating to take part in the scheme. Only 41 responded positively, and of those 15 have since left the scheme. In December 2000, Norweb invited a further 1000 prepayment meter customers with electric heating to take part. So far only 66 have asked to be included. We expect to receive a full report on the pilot by September 2001.

### ***Better identification and help to vulnerable customers***

- 4.4 London Electricity is piloting the project on better identification and help to vulnerable customers. This focuses on customers who are vulnerable to the cold, particularly the elderly, disabled or chronically sick, who are not always readily identified without the help of local agencies. This one year research programme is being undertaken in Brent in Greater London and Cornwall. In

each case London Electricity and SWEB staff have been working in partnership with local authorities, consumer agencies and local and national charities. The project is investigating links to GPs and community nurses, Social Services and the Benefits Agency. Partnerships are also being undertaken with Royal National Institute for the Blind and Barnardos. London Electricity will provide a report on the project by summer 2001.

### ***Switching from prepayment meters to other payment methods***

- 4.5 Scottish and Southern is undertaking research into how to inform customers effectively about the costs of prepayment meters and provide incentives for them to change to cheaper payment methods. Scottish and Southern has adopted a three-stage approach. First it carried out internal research to establish the main issues associated with prepayment meters. Secondly it surveyed 4000 prepayment meter customers to find out information about their circumstances, habits, attitudes and what would persuade them to change to a more efficient payment method. It is currently examining the results of the survey, to feed into stage three, which is the development of initiatives. Scottish and Southern will provide a report by September 2001.

### ***Financial services to disadvantaged customers***

- 4.6 Ofgem has provided some funding for NEA and NEF to carry out a scoping study into the feasibility of community investment partnerships based on credit unions. As a result of the study it recommended a 'factor four' approach involving comprehensive money advice, financial assistance for energy efficiency improvements, provision of optimum fuel payment methods with local access and individual advice on the best available energy prices. npower has agreed to fund work, which develops this idea further with a view to launching a product in winter 2001.
- 4.7 We are grateful for the ongoing contribution of sponsoring bodies and steering group members of all the research projects and look forward to receiving the final reports later this year.

## **Results from completed research projects**

- 4.8 In the following paragraphs we talk about those projects that have been completed and pick out the main conclusions from each. At the end of the section we consider these collectively and identify a number of ways in which we intend to take work forward.

### ***Self disconnection and rationing***

- 4.9 Professor Catherine Waddams of the Centre for Management under Regulation at Warwick University has led this research for the EA Fuel Poverty Task Force, which funded the project<sup>8</sup>. The research, which started in spring 2000, has involved face to face interviews with some 3,500 customers nationwide, as well as over 40 managers from electricity and gas suppliers.
- 4.10 The main objectives of the project were to identify and analyse the pattern of gas and electricity consumption in households vulnerable to fuel poverty, in particular the extent of self-disconnection amongst prepayment meter users and patterns of rationing amongst credit customers. It aimed to provide consistent and independent national information on the impact of different payment methods and policies towards debt recovery, and to identify the benefits and costs to customers of different metering and payment schemes.

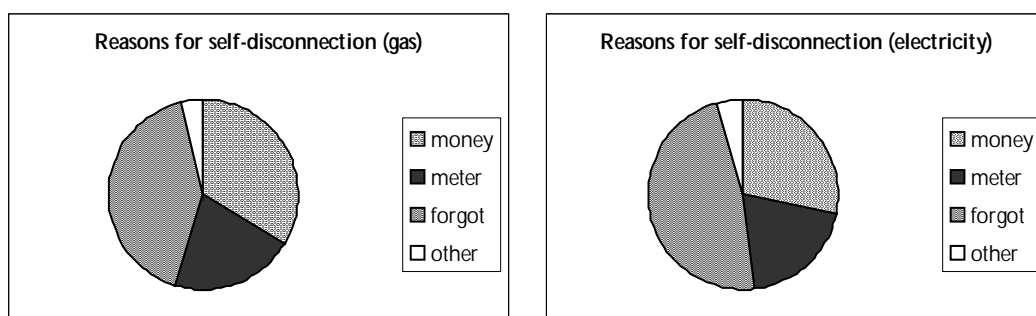
### **Summary of report**

- 4.11 The research found that self-disconnection is a problem for a minority of households with a prepayment meter. Around 25% of prepayment meter customers had self-disconnected in the past year, with 5% doing so frequently. For those that did self-disconnect, most did so unintentionally and were off supply for short periods only. Households with occupants receiving state pension or disability benefit self-disconnected the least.
- 4.12 The predominant reason for self-disconnecting was forgetting to top up the meter, followed by money related problems and then problems with the meter. A small number of households self-disconnecting (less than 10%) did so as a

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<sup>8</sup> Affording Gas and Electricity: Self Disconnection and Rationing by Prepayment and Low Income Credit Consumers and Company Attitudes to Social Action, published by the EA, March 2001 based on research undertaken by the Centre for Competition and Regulation at the University of East Anglia and the Centre for Management under Regulation at the University of Warwick.

result of poverty in general. Where self-disconnection was for financial reasons, the household often included at least one unemployed member, or children. Most customers were aware of the emergency credit facility and how to use it, but pensioners were the least aware of the facility.



- 4.13 Most credit customers surveyed try to economise on energy in some manner, but most (around 80%) reported no adverse results. However, more than one in ten turned the heating down lower than they would like and there was a small group (one in twelve) of customers for whom self-rationing was causing significant comfort/environmental problems.
- 4.14 Housing tenure affects the likelihood of having in place energy efficiency measures and relatively few privately rented houses had any such measures compared with owner occupied premises. Households buying both gas and electricity through prepayment meters are less likely to have energy efficient measures. Pensioners have more energy efficient measures than average. Those who find it difficult to keep their house warm have fewer energy efficient measures installed.
- 4.15 The switching rates were in line with the MORI findings and the main reason for switching supplier was to save money. Customers with an electricity prepayment meter and a gas credit meter show a tendency to switch gas but not electricity supplier. The main reason for not switching was lack of confidence in other suppliers (50% gas, 66% electricity). This was particularly prevalent among pensioners and customers with a disability. Few customers believed they could not switch supplier.
- 4.16 The vast majority of low-income customers using prepayment meters preferred this payment method and found it convenient. Almost 90% of prepayment

meter customers would choose to use a prepayment meter, with very few (only 3%) saying they would choose to pay by direct debit, even though 75% of prepayment meter customers had bank or building society accounts. The main reason for the popularity among low-income households was financial control and avoidance of large bills. Around 50% of those interviewed could think of no disadvantages in using a prepayment meter. Of those that did, the main drawback cited was that the meters could run out of credit. The report suggested that, due to the popularity of prepayment meters, policies should guard against restricting their use. It suggested that alternative methods of payment should demonstrate the positive attributes associated with prepayment meters such as advance payment, in order to gain customer acceptance.

### **Main conclusions for consideration**

4.17 The most notable conclusions are that:

- ◆ although self-disconnection is not a major issue for most customers, it may be a significant problem for a very small number, particularly those households with at least one unemployed member or children;
- ◆ one in ten customers turn down the heating more than they would like and one in twelve customers do so to the extent that they suffer significant comfort/environmental problems;
- ◆ customers on prepayment meters and particularly those in rented accommodation are least likely to have energy efficiency measures. These are often the households that find it most difficult to keep their house warm;
- ◆ there was a lack of trust in alternative suppliers, particularly among pensioners, customers with a disability, rural customers and customers with a prepayment meter;
- ◆ pensioners are least likely to know about emergency credit; and
- ◆ low-income customers prefer prepayment, because it gives them financial control and helps them to avoid large debts.

### *Energy efficiency advice*

- 4.18 This research was funded by the EA and undertaken by Dr Brenda Boardman of the Environmental Change Unit at Oxford University<sup>9</sup>. Its main objective was to establish how low-income customers prefer to access energy efficiency advice, the extent to which advice that is given is appropriate, and how it is acted upon.

#### **Summary of report**

- 4.19 The report found that the provision of energy efficiency advice to low-income customers has failed to make much impact, and that much more needs to be done if energy efficiency advice is to make the necessary contribution to delivery of the Government's fuel poverty targets. The report estimates that no more than 5% of disadvantaged households receive effective energy efficiency advice from any source each year and suggests that this would need to increase to 20% to enable the Government to meet its target of eradicating fuel poverty by 2010.
- 4.20 The report recommends that advice provision should follow a three-stage process: initial awareness raising by better trained frontline staff (not necessarily in the industry); expert advice provision; and confirmation and reinforcement to ensure advice is acted upon and is effective. It suggests that the first and third stages are often overlooked completely.
- 4.21 The report suggests that it is important to distinguish between 'information', which is general (for example, the provision of a Code of Practice) and 'advice', which should be specific to individuals and their circumstances. The aims of providing advice should be to improve the energy efficiency, comfort and the ability of the householder to achieve affordable warmth. Evidence suggests that the most effective advice provision is interactive and therefore needs to recognise problems of customers with limited literacy and numeracy skills. The report suggests that advice is most effective when provided face-to-face in the home.
- 4.22 The report says that suppliers' general customer enquiry services should be more proactive and diagnostic: increasing energy awareness and identifying unusual

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<sup>9</sup> Effective advice: Energy efficiency and the disadvantaged, published by the Environmental Change Institute at the University of Oxford, December 2000



use patterns that could be discussed and referred to an energy efficiency advisor. It suggests that, historically, monitoring of energy efficiency advice provision has been inadequate and recommends that Ofgem undertake mystery shopper type exercises. It also suggests the development of an accreditation scheme identifying minimum standards.

- 4.23 The report recommends greater co-ordination, nationally and locally. Nationally it suggests the main agencies should discuss the need for a coherent, co-ordinated and consistent approach to advising disadvantaged customers. Locally it recommends that community representatives should co-ordinate advice in a given area to optimise both awareness raising initiatives and successful delivery of advice, perhaps through the network of Energy Efficiency Advice Centres.

#### **Main conclusions for consideration**

- 4.24 The most notable conclusions are that:
- ◆ the provision of energy efficiency advice to low-income households needs to rise significantly;
  - ◆ more should be done to raise awareness among vulnerable customers and follow-up after advice provision;
  - ◆ suppliers should be more proactive in raising energy awareness and identifying unusual usage patterns;
  - ◆ energy 'advice' should be specific to the customer's circumstances, interactive, preferably in the home, and recognise the problems of customers with limited literacy skills;
  - ◆ monitoring of suppliers' performance should be improved and mystery shopper exercises undertaken; and
  - ◆ there should be more co-ordination nationally and locally.

#### ***Better prevention and management of debt***

- 4.25 The overall objectives of this research programme were to increase understanding of customers who are in debt and to explore ways of managing

debt problems more effectively<sup>10</sup>. For instance: how to encourage early contact between customer and supplier; the role consumption information plays in reducing debt build up; the appeal of energy efficiency programs, both in themselves and as a means of encouraging contact between customer and supplier; and the level, type and tone of advice needed to assist customers in managing their repayment of debt.

- 4.26 Powergen commissioned Diagnostics Social and Market Research Ltd to carry out this study. It was a two-stage project, with an exploratory quantitative stage followed by a qualitative stage. Five hundred customers in debt were invited to take part.

### Summary of report

- 4.27 The report suggests that customers in debt can be divided into three categories, each with different characteristics. They are as follows:
- 4.28 **Low Income Earners** (45%) - These are mostly couples or families, with at least one full-time earner in the household. They are more affluent than the other segments, with a median net household income of approximately £250 a week. They are more likely to live in larger, owner-occupied homes. Energy debt for this group is more likely to be temporary and relatively easily resolved. It is short-term debt caused by life change triggers or possibly energy billing issues. Only 3% of this group claim Job Seekers Allowance and 16% claim means-tested benefits.
- 4.29 **Older Unemployed** (32%) - These are usually aged between 35-64 with the lowest weekly income of all the categories (median net household income of less than £100 a week). They are more likely to live in small homes, usually rented and more likely to have chronic debt problems caused by life change triggers or sheer poverty. They are often disabled or long-term sick, with 51% of this group suffering from a serious illness or disability. 23% of the group claim Job Seekers Allowance and 57% claim means-tested benefits.
- 4.30 **Carers** (23%) - These are defined as people caring for another individual or individuals. They are often single-parents. Their household income is likely to

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<sup>10</sup> Scope for better prevention and management of debt, published by Diagnostics Social & Market Research Ltd. for Powergen and Ofgem, February 2001

be between that of the other two segments (median net household income of £125 a week). Their home is usually rented and they are likely to receive Housing Benefit. Sheer poverty and chronic debt are often dominant features in their lives. Some 20% of this group care for someone else in the household with an illness or disability. 8% of this group claim Job Seekers Allowance and 57% claim means tested benefits.

- 4.31 The research found that the estimated average expenditure on fuel for all segments is over £20 a week, with nearly half of electricity customers estimating that they pay more than £10 a week. These are considerable amounts in light of the low incomes described earlier. Bills tend to be higher among those not in paid employment, with high usage prevalent among the older unemployed and carers. This is perhaps owing to poor health, spending more time in the home and the presence of children and other dependants. Given that these groups have the lowest income, this suggests that there may be a strong link between chronic long-term debt and fuel poverty.
- 4.32 Whilst customers generally appreciate that the ideal response to payment problems is to alert the relevant supplier and discuss the matter, the research found that in reality they are less likely to act in this way. It suggests that further encouragement is needed for them to make early contact.
- 4.33 With regard to debt management, the report suggests that customers were reasonably satisfied with their supplier's approach. It suggested that suppliers should continue helping customers arrive at realistic, tailored payment solutions, and demonstrate understanding of individual circumstances.
- 4.34 Customers reported a lower incidence of debt prevention measures, such as advice on reducing usage and constructive help on energy efficiency measures, provision of practical energy efficiency measures, information about energy efficiency schemes, and encouragement of pre-debt dialogue. Additionally, customer service issues, such as better information about the benefits of direct debit, more frequent billing, accurate estimates and up to date consumption information would ensure customers felt more in control of their financial situation. Where there is a change of energy suppliers, this needs to be handled swiftly, to ensure delays in billing are avoided.

4.35 The research found that prepayment is popular across the board with customers once the initial stigma has faded. The benefits are easier budgeting which means that debt is less likely in the future.

#### **Main conclusions for consideration**

- 4.36 The report recommended that suppliers should do the following:
- ◆ encourage dialogue on debt by promoting a willingness to listen and help and providing reassurance that customers will receive a sympathetic hearing;
  - ◆ help customers arrive at realistic payment solutions, demonstrating understanding of individual circumstances and flexibility in respect of payment amounts, ensuring that customers understand and agree a level of regular payments which are not beyond their means;
  - ◆ encourage customers to seek help from independent money advice centres;
  - ◆ raise awareness of funded programmes such as HEES and EESoP;
  - ◆ target advice about reducing usage at customers in long-term debt and vulnerable customers such as those on the Priority Service Register;
  - ◆ recognise that customers like prepayment and seek to develop methods that build upon the benefits of prepayment methods;
  - ◆ improve customer service performance by having a freephone number and answering calls quickly, taking regular and accurate meter readings to avoid consecutive estimates and irregular billing, and avoiding delays in billing following customers changing energy suppliers;

#### ***Next steps***

4.37 The research project findings increase our understanding about the needs, circumstances and experience of low-income customers. What is particularly interesting is how the reports corroborate each other in a number of significant areas.

- 4.38 One of the strong messages coming through all the research is that low-income customers seem to like prepayment meters, even though most are aware that this may not be the cheapest way for them to pay for fuel. There is a huge fear of debt among low-income customers. Prepayment meters give them a financial control that other forms of payment do not. Furthermore, with the development of prepay mobile phones, the stigma associated with prepayment meters is being removed. Great care needs to be taken in the development of alternatives to prepayment meters to ensure that these budgeting advantages are retained.
- 4.39 Having identified the main reasons why customers self-disconnect, Ofgem intends to discuss with the industry what further action can be taken to minimise further disconnections from supply. Issues for consideration include improved information on the operation of meters, including emergency credit, and the availability of facilities to purchase credit. Customers with prepayment meters are likely to be in need of energy efficiency improvements, particularly those in rented accommodation. Consideration will be given to the need to focus advice and financial help on these customers, to enable them to reduce the size of their bills, and enjoy improved comfort levels.
- 4.40 The provision of good quality energy efficiency advice to low-income customers is an important first step in the elimination of fuel poverty. It is clearly disappointing that insufficient effective advice appears to have reached this group of customers. More needs to be done to raise awareness among low-income households, and to ensure that when given, advice is specific to customers' needs, and followed up. The research on energy efficiency goes wider than action by energy companies alone, as there are a number of other organisations involved in interfacing with low-income customers. Ofgem intends to host an "advice summit", which will bring together key players from suppliers, the DETR, EST, energywatch, Local Authorities and Independent Advice Centres, to discuss how the recommendations in Dr Boardman's report should be taken forward. More effective monitoring is needed into the quality of energy efficiency advice. We intend to undertake some research, such as mystery shopping, to establish the range of current practice among suppliers. We will look into the development and publication of guidelines on the provision of advice for low-income customers, to make this more effective.

- 4.41 We are confident that the suppliers' Codes of Practice should address some of the issues identified in the research. All suppliers are now required to improve promotion of the help available. Prepayment meter customers should benefit from the availability of a specific Code addressing their needs. In addition, from 1 April 2001, suppliers will be required to provide more focused monitoring information on their performance under the Codes of Practice with regard to debt management and the provision of energy efficiency advice as well as in other areas.
- 4.42 There are a number of issues to be considered to encourage the spread of best practice in the field of debt prevention. Suppliers need to encourage dialogue on debt with their customers, by promoting a willingness to listen and help, and providing reassurance that customers will receive a sympathetic hearing. The role of independent money advice centres in the case of multiple debt, and access to energy efficiency grants, such as HEES and ESSoP, are important in helping customers overcome long term debt problems. Improvements in customer service performance, involving call centre facilities, use of the Priority Service Registers, accurate meter readings, and avoiding problems when customers are switching energy supplies, will contribute to the better prevention of debt. Ofgem will establish a working group to examine the scope for producing guidelines to promote best practice.

## 5. Innovative approaches to fuel poverty

- 5.1 Ofgem recognises that it has an important contribution to make in tackling fuel poverty. We believe that the best way to do this is to promote competition and bring value and choice to consumers. It is important that the competitive market should reach all consumers, and where there are barriers to low-income customers enjoying these benefits we have encouraged companies to develop innovative and commercially viable solutions. During the last year Ofgem has been encouraged by suppliers' responses to this challenge, and expects further developments in the coming year.

### *Industry initiatives*

- 5.2 So far suppliers have initiated schemes that address three key issues, namely more affordable tariffs, tackling social exclusion, and targeting resources.

### **Affordable tariffs**

- 5.3 Reducing the cost of energy gives low-income customers greater flexibility in their spending priorities and helps address concerns about being able to budget effectively and keep warm.
- 5.4 TXU's 'Staywarm' scheme is a social tariff aimed at customers on state benefits. The concept is that customers' houses are assessed on their size and occupancy, and a fixed amount agreed for payment in installments over a period of 12 months. As customers are not billed for their actual usage, there is an incentive for customers to leave their heating on during cold periods. Costs are lower because there is no meter reading and no bills. Payments are made regularly either by cash or direct debit (cash payers do not have to pay any extra). Fixed regular payments mean that there is no build-up of debt. Eligible customers are referred automatically to HEES advisers so that the energy efficiency assistance is maximised. TXU say that they have had positive feedback from customers on the scheme.
- 5.5 Yorkshire Electricity is piloting a similar initiative, branded 'HEATplan', which is a scheme targeted at the elderly, disabled and those on benefits. This scheme

offers customers regular fixed payments, a free energy efficiency assessment, free insulation and energy efficiency appliances, and a free benefits check.

- 5.6 Scottish and Southern Energy run a tariff called 'Equigas'. All customers on the tariff pay the same unit price, regardless of their chosen method of payment. There is no standing charge. This means that in effect direct debit and quarterly credit customers give up some of their discount and prepayment customers pay less than usual.

### **Social exclusion**

- 5.7 Ofgem has been a supporter of the work of the Social Exclusion Taskforce, the banks and the Post Office, in extending access to financial services to low-income households. Without suitable bank accounts, households are denied access to the cheapest payment options such as direct debit.
- 5.8 In the past year, two suppliers have linked with banks to extend banking services to customers who have not previously had accounts. BGT has linked with Bank of Scotland and Scottish Power with Royal Bank of Scotland to offer low-income customers bank accounts that enable customers to pay by direct debit, thereby reducing their fuel bills.
- 5.9 Ofgem is supportive of these initiatives and also welcomes the agreement in principle between the major banks and the Post Office over the development of Universal Banking services. The development of basic bank accounts by the high street banks and efforts to extend the services available through credit unions are further welcome developments.
- 5.10 The EA Fuel Poverty Task Force, established in May 1999, has increased the awareness of fuel poverty within the industry, and has been identifying and establishing relationships with other organisations with whom there is a shared interest in fuel poverty. The Task Force has held discussions with various major financial organisations to determine how the energy industry can best offer payment facilities with new banking products. As a result of these discussions, the Task Force has highlighted a number of desired features for any new payment facilities for utility bills.



## Targeting resources

- 5.11 The fuel poor are not easily identified, and fuel suppliers are rarely in possession of sufficient information to know who is most in need. It is often people in personal contact, or who hold specific information, that are best placed to know what help vulnerable people need. These include Local Authorities, health centres, Citizens' Advice Bureaux and charitable groups.
- 5.12 Best practice should aim to deliver a comprehensive package to customers, through a 'one-stop-shop' approach. If effective co-operative networks can be established, fuel suppliers can help positively in a number of ways by:
- ◆ providing energy efficiency advice, including referral to appropriate sources of grant assistance, for example HEES, EESoP;
  - ◆ providing access to special services, such as safety checks, through the Priority Service Register;
  - ◆ advising customers about the most appropriate tariff, for example customers using a prepayment meter may be able to switch to a cheaper payment method;
  - ◆ where appropriate, referring customers for expert money advice and/or advice on benefits
- 5.13 Suppliers are helping to address these issues in a number of ways:
- ◆ BGT's 'Warm-a-life', aimed at the fuel poor, proactively targets customers who might benefit from energy efficiency grant schemes and also offers a free benefits check and a one off reduction on fuel bills of up to £15.
  - ◆ Powergen and Age Concern have set up Age Concern Energy Services, which offers a number of benefits including advice, a non-disconnection policy, and free heating when the temperature drops below freezing.
  - ◆ npower's 'Health Through Warmth' scheme has successfully completed a pilot in the West Midlands, and is now being rolled-out to 20 NHS

Trust areas. The scheme involves training district nurses, health visitors, and voluntary workers to offer advice to people they visit.

- ◆ London Electricity is operating a pilot project to identify and help vulnerable customers through contact with front line staff, such as call centre and meter reading staff, and through working with Local Authorities, consumer agencies and charities.
- ◆ Scottish Power and EAGA own an independent company called NEST Makers, which has established a network of local energy advisers who can offer free advice to householders on benefit. This includes a benefits health check and referral to HEES and EESoP schemes.

### ***Partnerships with others***

- 5.14 In February 2001 Ofgem sponsored a joint conference with the Local Government Association entitled 'Tackling Fuel Poverty – Delivering Decent Homes'. This looked at the role which energy companies, Government and agencies can play by working together to deliver warm, decent and healthy homes in order to tackle fuel poverty.
- 5.15 The conference was attended by senior managers from energy suppliers, Local Authorities, housing associations, community development programs and those responsible for developing Home Energy Conservation Act plans.
- 5.16 The conference considered the contribution that Local Authorities can make to tackle fuel poverty, by effective use of the resources and schemes run by energy suppliers, agencies and Government to improve the quality of homes.
- 5.17 Representatives from Luton Borough Council and Birmingham City Council told the conference how their authorities had designed and delivered successful 'affordable warmth' strategies. This involved drawing together a broad-based partnership with all active and relevant agencies in their area; identifying the fuel poor, where they are and what needs to be done; and raising the profile of energy awareness by training front-line staff and promoting energy efficiency.
- 5.18 Through a series of workshops the conference identified a number of areas for improvement. These are summarised below:

- ◆ complexity was caused by a multiplicity of often overlapping schemes and poor marketing material;
- ◆ partnerships should recognise the need for all partners to have ownership, clear lines of accountability and a clarity of desired outcomes;
- ◆ funding must be adequate for the needs of the scheme and possibly pooled to enable better use of limited resources;
- ◆ corporate buy-in is essential to obtain high level support and ensure that fuel poverty is given a high priority and is integrated across local authority departmental strategies;
- ◆ financial control could be achieved by more effective management and monitoring of schemes and making the best use of local resources, particularly skilled contractors;
- ◆ adopting a fuel poverty strategy as a duty would ensure that all Local Authorities had to develop local approaches for reaching the fuel poor;
- ◆ links to other organisations objectives can help an organisation meet other objectives relating to health, housing and social exclusion; and
- ◆ use of frontline staff – the training of all staff who come into contact with the target group (including revenue staff, and not just the more obvious ones in the ‘caring’ roles) can play an important part in linking the fuel poor with available grants.

### ***Warm Zones***

- 5.19 The Government, in its Fuel Poverty Strategy, has announced a new pilot approach to tackling fuel poverty.
- 5.20 The ‘Warm Zone’ initiative is a pilot programme drawing together local partnerships involving energy companies, Local Authorities, health authorities, local businesses and community and voluntary organisations in a co-ordinated effort to substantially tackle fuel poverty in specific localities.

- 5.21 The aim is at least to halve fuel poverty in each of the pilot areas within 3 years, using an area – rather than referral – based mechanism. Warm Zone teams will aim to survey all households in a particular area, identify those in fuel poverty and provide improvement measures through grant schemes available in that location.
- 5.22 Five pilot zones are being set up to test the approach and develop best practice. These are in Northumberland, Stockton, Hull, Sandwell and the London Borough of Newham. In addition to funding from the DTI, the Warm Zones are being supported by Local Authorities and Northern Electric, Transco, npower, Yorkshire Electricity and London Electricity as part of their commitment to deal with the fuel poverty issue. Powergen is also providing support for the Warm Zones central co-ordinating team and it is anticipated that more of the major energy companies will participate as the scheme expands.
- 5.23 In each Zone a core management team will create a comprehensive understanding of the fuel poverty agenda and provide the skills to identify fuel poor households and apply appropriate measures. All the Zones will work to national performance, delivery, and best value targets and receive central co-ordination and oversight.
- 5.24 Initially proposed and developed by the EAGA partnership, Warm Zones will extend beyond the present major grant funded fuel poverty programmes. The Zones will raise awareness of related health and energy conservation issues; encourage community support and care for the elderly and disabled relatives and neighbours; create practical links with community finance and banking; and, through the incorporation of a ‘benefits health check’ and money advice, support programmes to reduce poverty generally. Energy efficiency advice will be offered to all householders, carbon emissions will be reduced and new jobs and training opportunities created.
- 5.25 Ofgem has offered its support to the Warm Zones pilot as an interesting alternative method for delivering energy efficiency. We are interested in the results of the evaluation to be carried out after year one by EST and NEA before further roll-out. Ofgem will be discussing with supply companies and the DETR the ways in which the future Energy Efficiency Commitment can take account of the Warm Zone approach.

## 6. Commitments for 2001-2

- 6.1 This report describes the progress that Ofgem has made over the past year on the Social Action Plan. Work on a number of the original initiatives which Ofgem identified for action has been completed, notably revision of licence conditions on social obligations and approval of the associated Codes of Practice, and work on new monitoring arrangements. Good progress has also been made on identifying and implementing steps to improve the operation of Fuel Direct.
- 6.2 There are important linkages between the Social Action Plan and the Government's Fuel Poverty Strategy, particularly in the further development of fuel poverty indicators, and in continuing encouragement for company schemes which address the needs of disadvantaged groups. We will continue to work with other Government departments, energywatch, Local Authorities and consumers groups to contribute to the alleviation of fuel poverty.
- 6.3 Further development of the Social Action Plan is central to Ofgem's aim of bringing greater choice and value to electricity and gas consumers. Ofgem will continue to encourage competition where this is possible, because we believe that this will result in the best deal for customers. We will work to identify and remove barriers which impede the development of competition, and use the powers we have to keep prices as competitive as possible. Other work on the Social Action Plan during 2001/2, which we have identified in this document, will be on:

### **Fuel Direct**

- ◆ monitoring the operation of revised arrangements agreed with suppliers and the DSS;
- ◆ holding discussions with suppliers, Post Office, the DSS and other interested parties on a new scheme, for introduction in 2003;

### **Debt blocking**

- ◆ agreeing a trial, monitoring and evaluating the results;

- ◆ subject to the results of a trial, proposing any necessary licence modifications, (changes to the Master Registration Agreement in electricity may also be needed);

### **Prepayment meters**

- ◆ discussing and agreeing industry actions for reducing self-disconnection – including information on emergency credit, available payment outlets, provision of energy efficiency advice;
- ◆ pursuing the strategy for metering, including encouragement for greater competition and innovation with a view to reducing the costs of prepayment metering;
- ◆ exploring and evaluating alternative methods of payment which give low-income customers equivalent control of their budgeting at lower cost.

### **Energy efficiency advice**

- ◆ undertaking a qualitative monitoring exercise into suppliers' energy efficiency advice services;
- ◆ developing and publishing guidelines on improving the provision of advice for low-income customers;
- ◆ hosting an "advice summit", bringing together key players, e.g. suppliers, the DETR, EST, energywatch, Local Authorities, Independent Advice Centres;

### **Debt prevention and management**

- ◆ establishing a working group to review best practice, with a view to publishing guidelines;

### **New tariffs**

- ◆ evaluating suppliers' schemes, and ensuring the take up of successful approaches is encouraged;

### **Indicators / monitoring**

- ◆ implementing new monitoring arrangements on suppliers' social obligations;
- ◆ publishing quarterly monitoring reports on suppliers' performance;
- ◆ working with the DTI on fuel poverty indicators;
- ◆ arranging joint monitoring visits to suppliers with energywatch.

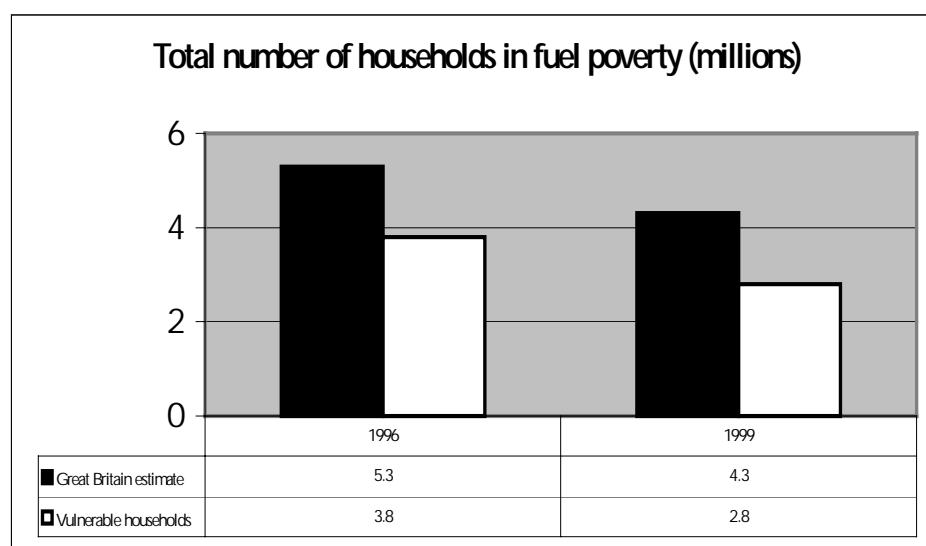
## Appendix 1 Key indicators

1.1 The Social Action Plan set out twelve key indicators to monitor and evaluate progress of the Plan. This section provides a guide to progress using data that Ofgem receives from suppliers and other sources including market research conducted by MORI. Since Ofgem published the Plan last year, the Government has published its Fuel Poverty Strategy. Some of the indicators used in that document are also relevant to the Social Action Plan and are reproduced here.

### *Key Indicators*

#### **Total number of households in fuel poverty**

1.2 The chart below shows the latest Government estimates for the number of households in fuel poverty. The definition of a fuel poor household is one needing to spend 10% or more of their income on fuel in order to heat their home to a satisfactory level (21 degrees centigrade in the living room and 18 degrees centigrade in other occupied rooms). Ofgem hopes that the Social Action Plan will contribute to a reduction in the number of fuel poor households.

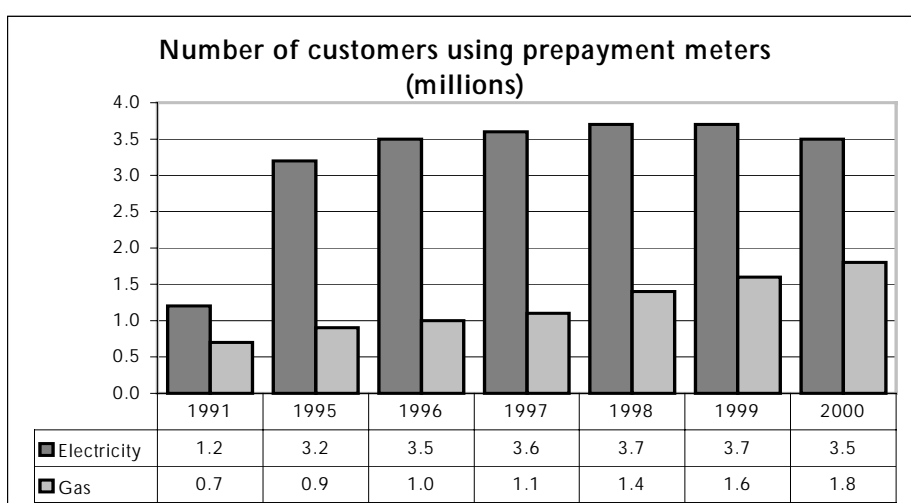


(Source: The UK Fuel Poverty Strategy. Figures are based on UK estimates, less 0.2 million to account for Northern Ireland households)

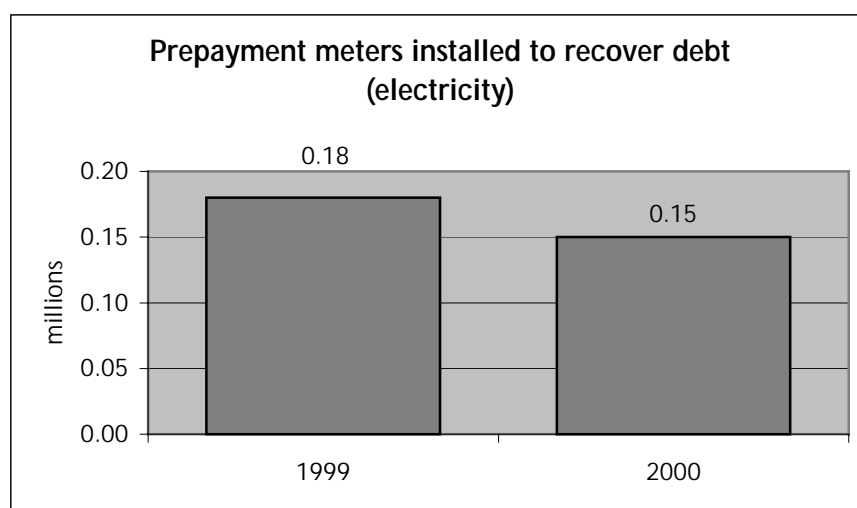


## Number of customers using prepayment meters

- 1.3 Research carried out for Ofgem by MORI<sup>11</sup> suggests that most prepayment customers are generally satisfied with this method of payment. The rise in popularity of prepay mobile phones has reduced the stigma of prepayment and highlighted the advantages to many customers. However prepayment remains an expensive method of paying for electricity and gas. Additionally, as prepayment meters are frequently used by suppliers to recover debt, Ofgem will continue to monitor both the number of customers using prepayment meters, and those using them to repay debts.



(N.B. figures for 2000 are provisional)



(Source: Ofgem)

<sup>11</sup> Experience of the competitive domestic electricity and gas markets – Research study conducted for Ofgem by MORI, published by Ofgem, January 2001 08/01

### **Debt repayment levels**

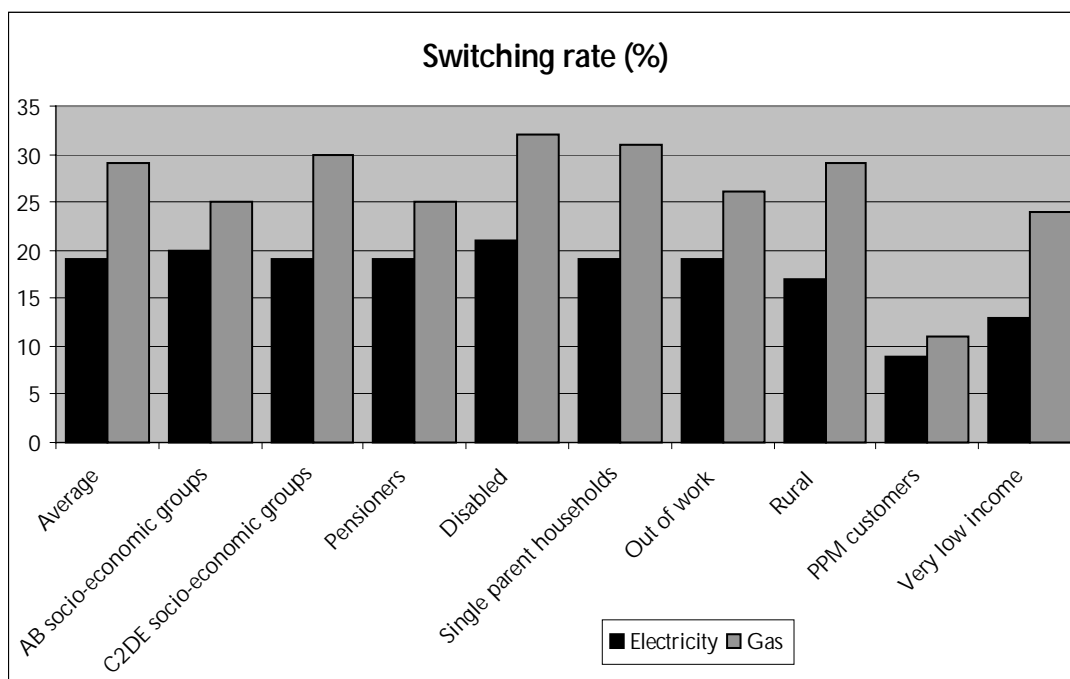
- 1.4 From the quarter beginning 1 April 2001, Ofgem will be collecting detailed information about debt from electricity and gas suppliers. This will monitor the size of debts, the period over which they are to be repaid, and the weekly level of repayment. Currently around one million customers, in both gas and electricity, are believed to be repaying a debt via a payment scheme.

### **Tariff and payment choice**

- 1.5 From 1 April 2001, Ofgem will monitor the number of gas customers who make regular cash payments. The number of electricity customers in 2000 who paid fortnightly or more frequently or who were on a flexible payment scheme was 1.18m. This is an increase of 63% on the 1999 figure of 0.725m. Ofgem encourages suppliers to develop innovative schemes to tackle fuel poverty above and beyond their prescribed obligations. Details of such schemes are covered in more detail in Appendix 2.

### **Disadvantaged customers and competition**

- 1.6 The latest MORI statistics on switching rates across various consumer groups set out below show that competition has reached most groups fairly evenly. The main exception is prepayment meter customers, whose rate of switching is less than half the average in electricity, and just over a third of the average in gas. Ofgem believes that it is important that prepayment customers should be able to participate more fully in competition and is keen to encourage a more competitive market in this sector.

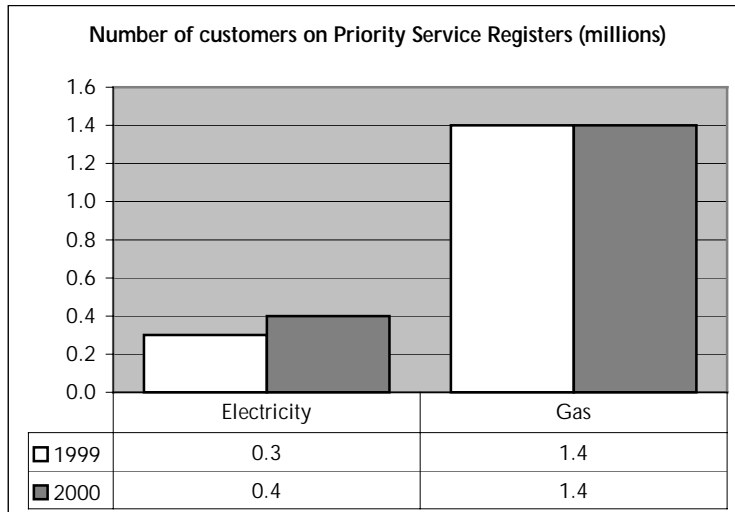


(Source:MORI)

Switching rate (%)	Electricity	Gas
Average	19	29
AB socio-economic groups	20	25
C2DE socio-economic groups	18-20	28-32
Pensioners	19	25
Disabled	21	32
Single parent households	19	31
Out of work	19	26
Rural	17	29
PPM customers	9	11
Very low income	13	24

### Priority Service Registers

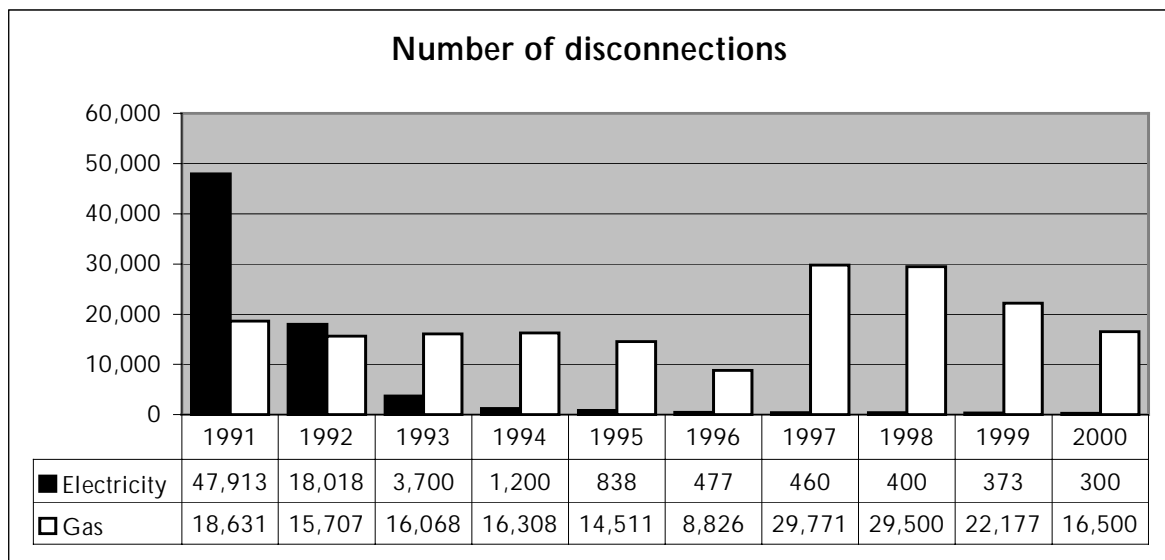
1.7 Ofgem will continue to monitor the number of customers on Priority Service Registers through its Codes of Practice monitoring returns. The numbers for the last two years are set out below. The new industry watchdog, energywatch, has stated its intention to promote the Register as a matter of priority, and will be working for a substantial increase in take-up over the coming years.



(Source: Ofgem)

### Disconnections

- 1.8 Set out below is a graph illustrating the number of disconnections from 1991 to 2000. Electricity disconnections have fallen dramatically. Gas disconnections are also falling, following a peak in 1997/8.



(N.B. figures for 2000 are provisional)

(Source: Ofgem)

## Self-disconnections

1.9 Results from research conducted for the EA<sup>12</sup> during 2000 are as follows:

**The proportion of prepayment households reporting self-disconnection from electricity and gas (numbers for electricity consumers in brackets)**

Household Categories	Disconnected from electricity	Disconnected from gas
All prepayment meters (2091, gas 941)	24%	27%
Receiving benefits (1738)	24%	29%
One or more unemployed (489)	30%	33%
In rural areas (106)	25%	19%
Receiving state pension (265)	11%	18%
Low income (1115)	24%	28%
Receiving disability benefits (402)	21%	22%
With children (1124)	27%	32%

1.10 Of those who had self-disconnected, 42% of electricity users did so only once, 24% did so three times or more, and 4% more often than 20 times in a year. Amongst those who self-disconnected from gas, 28% did so only once in the previous twelve months, 37% did so three times or more, with 6% self-disconnecting more than 20 times. Most self-disconnections were for less than 7 hours.

(Source: EA Fuel Poverty Task Force)

### Effective energy efficiency advice

1.11 Current data for the provision of energy efficiency advice is limited and potentially unreliable. Monitoring returns suggest that approximately 0.1 million electricity customers and 0.04 million gas customers were provided with advice

<sup>12</sup> Affording Gas and Electricity: Self Disconnection and Rationing by Prepayment and Low Income Credit Consumers and Company Attitudes to Social Action, published by the EA, March 2001 based on research

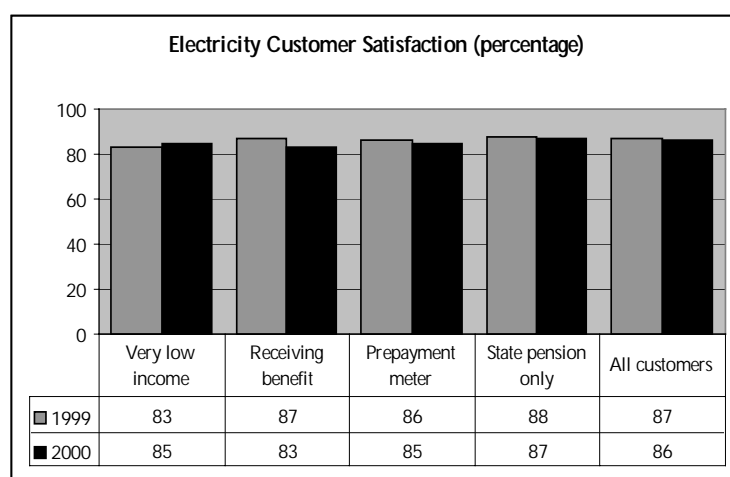
during 2000. However, there may be an element of double counting in these figures, as many suppliers have just one advice line for both fuels. New monitoring arrangements, which come into effect from 1 April 2001, should provide more detailed and accurate data. Ofgem is encouraging the targeting of energy efficiency advice towards the fuel poor, and future monitoring will be of a qualitative as well as quantitative nature.

### Warm Homes initiatives

1.12 Details of the EESoP 3 programme, which targets energy efficiency initiatives at the fuel poor, can be found in the section on Energy Efficiency Commitment (page 17). Details of company initiatives, such as BGT's 'Warm-a-life' and TXU's 'Staywarm' can be found in Appendix 2. Ofgem will be regularly reviewing company initiatives through its Codes of Practice monitoring returns, and will continue to offer support for such schemes.

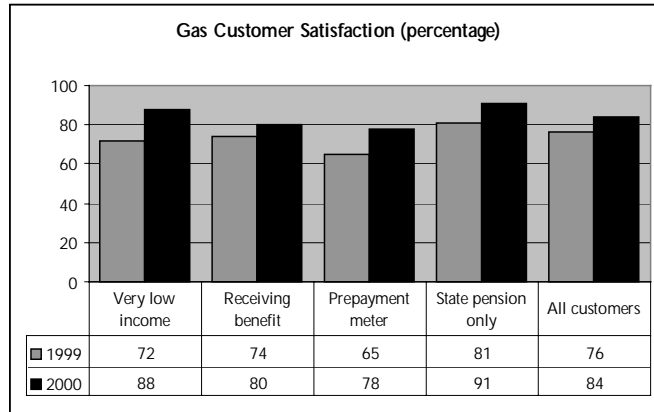
### Customer Satisfaction

1.13 The latest MORI research<sup>13</sup> on customer satisfaction is set out below.



undertaken by the Centre for Competition and Regulation at the University of East Anglia and the Centre for Management under Regulation at the University of Warwick.

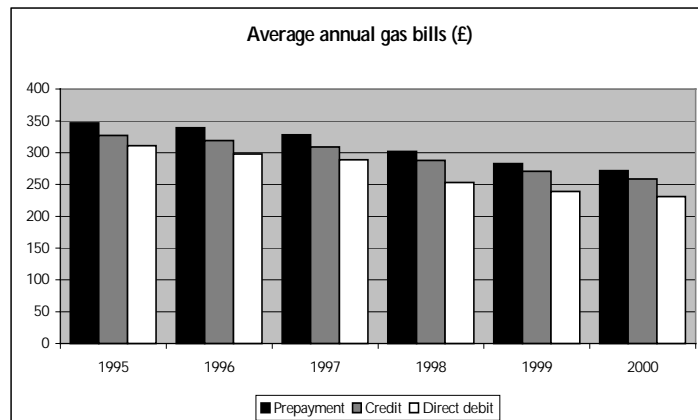
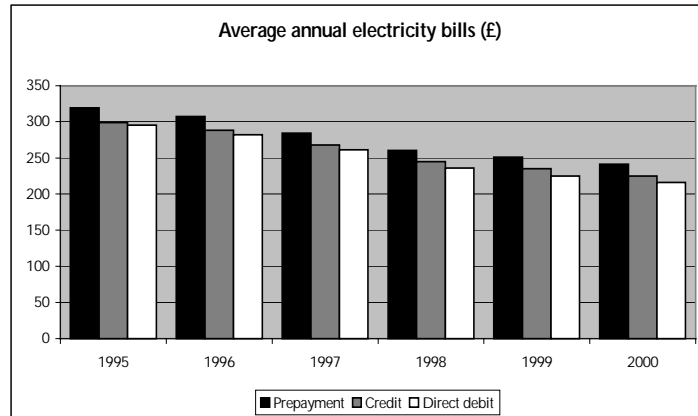
<sup>13</sup> Experience of the competitive domestic electricity and gas markets – Research study conducted for Ofgem by MORI, published by Ofgem, January 2001 08/01



(Source: MORI)

## Prices

1.14 The graphs below show how average annual bills have changed for different customers since 1995.



(Source: The UK Fuel Poverty Strategy. Based on a quarterly survey of suppliers and assumes 3,300kWh per annum consumption for electricity customers and 18,000 kWh for gas customers. The figures are calculated in real 1995 terms, using the GDP deflator)

## Appendix 2 Industry initiatives

This appendix describes a range of industry initiatives notified to Ofgem. It is not intended to be comprehensive.

### *BGT*

#### **Warm-a-Life**

- 2.1 This scheme, aimed at the fuel poor, proactively targets customers who might benefit from energy efficiency grant schemes and also offers a free benefits check and a one off reduction on fuel bills of up to £15. The scheme has been piloted to 150,000 customers, and will be targeting a further 850,000 this year.

#### **Bank of Scotland link-up**

- 2.2 This scheme offers low-income customers special bank accounts that allow them the benefits of direct debit savings.

### *London Electricity/Sweb*

#### **HelpCo**

- 2.3 This is a pilot scheme offering electricity to cash payment customers at cheaper direct debit rates. Customers pay regularly to an intermediary, HelpCo, who are then billed by direct debit by London Electricity. The savings are passed on to the customer. HelpCo are also looking towards offering interest-free loans to customers to help them pay off their outstanding energy debt. The pilot for this scheme, 'The Breaking Out Fund', will begin April 2001.

#### **Newham Warm Zone**

- 2.4 London Electricity is supporting the Newham Warm Zone. The project will target energy efficiency advice towards those most in need, and try to develop an understanding of the issues underlying fuel poverty.



## ***Northern Electric***

### **Northumberland Warm Zone**

- 2.5 Northern Electric is supporting the Northumberland Warm Zone. The project will target energy efficiency advice towards those most in need, and try to develop an understanding of the issues underlying fuel poverty.

## ***npower***

### **Health Through Warmth**

- 2.6 This is a link-up with NHS health workers (who are most in touch with those in need) to target energy efficiency advice and identify fuel poverty. npower estimate this will benefit around 200,000 households over the next 2-3 years. Following a pilot scheme in the West Midlands, 'Health Through Warmth' has now been expanded to 20 NHS Trust areas.

### **Christmas offer for the elderly**

- 2.7 This was a promotion launched in December 2000, which was targeted at elderly customers. The offer comprised a payment of £5.25 (82 free units of electricity), energy efficiency advice, advice on grants and insulation, a free thermometer and information about the Priority Service Register. The scheme was targeted at all npower customers on a state pension and had a take-up of 36,000 for the electricity, with 22,000 enquiries about the Priority Service Register.

### **Sandwell Warm Zone**

- 2.8 npower is supporting the Sandwell (Birmingham) Warm Zone. The project will target energy efficiency advice towards those most in need, and try to develop an understanding of the issues underlying fuel poverty.

## ***Powergen***

### **Prepayment surcharge**

- 2.9 Powergen has cut its electricity prepayment surcharge from £15 to £8 (effective from April 2001). This affects 230,000 customers. Powergen has stated its aim to eliminate the surcharge by 2005.

### **Age Concern partnership**

- 2.10 Affecting around 25,000 elderly customers, this initiative targets energy efficiency measures to older people, as well as providing free heating when the temperature drops below freezing.

### **Warm Zone Central Co-ordination**

- 2.11 Powergen is contributing funds towards the central co-ordination of the Government's Warm Zones project. The project will target energy efficiency advice towards those most in need, and try to develop an understanding of the issues underlying fuel poverty.

## ***Scottish and Southern Energy***

### **Equigas**

- 2.12 'Equigas' is a scheme run by Southern Electric Gas which charges all customers the same unit price for their gas (with no standing charge), regardless of their payment method. This means that in effect direct debit and quarterly credit customers pass some of their savings on to prepayment meter customers, whose charges are then cheaper than the normal prepayment tariff. There are currently 650 customers on this scheme.

### **Budget Warmth**

- 2.13 Targeted at the elderly and those on low incomes, this scheme is designed to ensure customers have at least one constantly warm room throughout the winter. An electric storage heater is installed in the living room and operates constantly from October to April. The cost of the heating is spread evenly throughout the year. There are currently 1800 customers on the Budget Warmth scheme.

## ***Scottish Power***

### **NEST Makers**

- 2.14 NEST Makers (Neighbourhood Energy Services Team) is owned jointly by Scottish Power and EAGA (who operate HEES). They offer free advice to people on benefit and check whether they are entitled to other benefits and energy efficiency grants.

### **Royal Bank Key Account**

- 2.15 This is a joint initiative with Royal Bank of Scotland to allow customers who normally pay by cash or prepayment meter to pay by direct debit and benefit from the resulting savings. The scheme is aimed at low-income customers who have never had a bank account.

## ***Seaboard/Beacon Gas***

### **NEA Project in Medway**

- 2.16 NEA and Seaboard are running a trial in Medway, Kent linking energy efficiency advice and measures to a change from prepayment meter to credit terms. This should help customers reduce their bills and make them more aware of their usage patterns, helping their budgeting.

## ***TXU***

### **Staywarm**

- 2.17 'Staywarm' is a social tariff aimed at customers who are on state benefits. Customers' houses are assessed on their size and occupancy, and a fixed amount agreed for payment in instalments over a period of 12 months. No account is taken of actual usage, so there is an incentive for customers to leave their heating on during cold periods. Costs are lower because there is no meter reading and no bills. Payments are made regularly either by cash or direct debit (cash payers do not have to pay any extra). Fixed regular payments mean that there is no build-up of debt.

## ***Yorkshire Electric***

### **HEATplan**

- 2.18 This is being piloted in Yorkshire and includes a check that customers are claiming all available benefits, advice about energy efficiency and fixed levels of payments for energy.

### **Hull Warm Zone**

- 2.19 Yorkshire Electricity is sponsoring the Hull Warm Zone. The project will target energy efficiency advice towards those most in need, and try to develop an understanding of the issues underlying fuel poverty.

## Appendix 3 Research

Project	Sponsors	Independent steering group members (all steering groups have representatives from Ofgem and the sponsor)	Expected completion date
Energy Efficiency Advice	EA Fuel Poverty Task Force & EESoP Working Group	While a steering group was not set up for this project, a review group did meet to review the research findings	Project completed
Self-Disconnection & Rationing	EA Fuel Poverty Task Force	Steve James (Powergen), Tony Jackson (SEEBOARD), Ron Campbell (NEA), Catherine Waddams, Dianne Sharratt (CMUR), Graham White (DTI), Edmund Paton Walsh (Iiposos-RSL), Alex Meredith (GCC), Pauline Ashley (ECC)	Project completed
Switching from prepayment meters to other payment methods	Scottish and Southern Energy	Hugh Duncan (Chairman ECC North of Scotland), Ken Prior (Chairman ECC Southern), John Hanlon (Chairman GCC Scotland), Ann Loughrey (Director, NEA Scotland)	December 2001
Debt prevention and management	Powergen	Martin Finch (University of Leicester), Ailsa Price (GCC), Neal Storer (Chesterfield CAB) Irene Bloor (Chairman East Mids. ECC)	Project completed
Identification and help to vulnerable customers	London Electricity	David Hart (ECC London), John Davies (ECC South-West)	Mid 2001
Different forms of debt recovery using prepayment meters	Norweb	Joan Davies (ECC Eastern), Professor Lorraine Baric (Chairman ECC North West), David Burdiffe (Anti-Poverty Unit), David Sidebottom (GCC North West), Barbara Montoute (Fuel Rights Team, COMTECHSA Charitable Trust)	September 2001
Financial Services to disadvantaged customers	National Energy Action New Economics Foundation and npower	This steering group is currently being established	November 2001

## Appendix 4 Timetable

<b>Undertaking in Social Action Plan</b>	<b>Action taken</b>
<b>Agree new Licence Conditions and Guidance Notes for suppliers' Codes of Practice by June 2000</b>	Received consent and issued Decision document in May 2000
<b>Approve new Codes of Practice by September 2000</b>	Received final drafts throughout September 2000 and October 2000. Approved Codes for all but three suppliers by end of October 2000.
<b>Revise monitoring arrangements for Codes of Practice by June 2000</b>	Convened a working group in September 2000 to consider revised monitoring arrangements. Consulted suppliers in November. Final arrangements agreed and published in February for implementation from 1 April 2001.
<b>Confirm research parties for each of the seven research projects by summer 2000</b>	Lead agencies identified for all of the projects. First three pilots report in 1 <sup>st</sup> quarter 2001, others by December 2001.
<b>Set up a working group on Fuel Direct by March 2000 Working group to report on findings by summer 2000</b>	First working group meeting in May 2000  Reported to Ministers in August 2000, recommending action by the DSS, suppliers and Ofgem.  Recommendations have been accepted. Ofgem published report in January 2001.
<b>Reform the arrangements for the transfer of customers in debt by October 2000</b>	Published consultation in December 1999 and revised proposals in May 2000. Proposed a special condition in BGT's price control proposals in December 2000, but this was refused. Holding further meetings with suppliers.
<b>Review prepayment meter infrastructure by summer 2000</b>	Awaiting the results of the research projects relating to prepayment meters.
<b>Introduce new Energy Efficiency Standards of Performance in April 2000</b>	New scheme implemented.
<b>Introduce competition in metering services by April 2000</b>	Competition introduced. Issued a survey document in August 2000 to gauge how the market is operating and identify barriers to competition. Strategy for metering published in March 2001.
<b>Cut costs to customers through price controls in April 2000 and the introduction of New Trading Arrangements in Autumn 2000</b>	Implemented price controls in April 2000. NETA implemented in March 2001.
<b>Ofgem to establish Review Group</b>	Review Group established February 2000. Meetings held in May and November.
<b>Ofgem to monitor progress</b>	MORI report published in February 2001.