



*Campaigning for Warm Homes*

## **Testing domestic consumer take-up of energy services: trial suspension of 28 day rule**

### **NEA response to consultation**

#### **1 Introduction**

1.1 As a national charity with a long history of campaigning for practical solutions to fuel poverty, with an emphasis on energy efficiency as the long term sustainable solution, NEA recognises the value of measures which stimulate take up of energy efficiency improvements by UK householders. NEA welcomes the opportunity to comment on Ofgem's proposals for the trial.

1.2 Our comments will be somewhat limited since we broadly endorse the view expressed in the draft Regulatory Impact Assessment (Appendix 1 paragraph 1.15) that energy services packages are less relevant to fuel poor households. However, much evidence now exists to refute the simplistic statement that "fuel poor customers can get measures for free...". Many fuel poor consumers do not qualify for assistance from the energy efficiency grant programmes currently available. Accordingly some of our comments relate to general concerns about the marketing of energy services contracts to the low-income sector, particularly consumers who cannot "get measures for free".

#### **2 Relationship with EEC**

2.1 It would have been helpful if the consultation document had been more explicit about the distinction being made between consumers for whom these contracts are principally designed and those for whom they are seen to be inappropriate. It is only in Appendix 1 and the occasional references to prepayment meter users that this issue is acknowledged. In particular we think it important that there is clarification of the way that the proposed trial arrangements will work alongside the Energy Efficiency Commitment. We would have found this helpful in considering the kind of consumer safeguards that ought to be incorporated in the trial.

2.2 For example, the EEC requirement in respect of the priority group creates its own incentive for suppliers to establish partnerships with social landlords. Whilst it may be

anticipated that energy services contracts are designed with owner occupiers in mind there does appear to be some potential for suppliers to agree packages with social landlords where, for example, a programme of boiler replacement is anticipated. It is not clear to NEA that it is appropriate for landlords to invite tenants to commit to energy services contracts in these circumstances. As EEC operates at present any improvement package for tenants does not involve waiving the right to switch supplier. We are not persuaded that their interests would be better served by switching to an energy services contract, even if this may have financial advantages for landlords and suppliers.

2.3 We also have some general concerns about the likelihood that suppliers will wish to use energy services contracts to reduce the cost of meeting their EEC savings targets. In the case of non priority group customers substantial discounts are commonly available for insulation improvements. If suppliers seek to increase the amount of the customer contribution to the cost of these improvements via energy services contracts it would be reasonable to suppose that this would have some impact on prices generally. Yet there are no indications that Ofgem has any plans to monitor this effect. For consumers on low incomes, albeit that they may not receive welfare benefits, it is not clear that energy services contracts represent any advance on the EEC benefits they may be able to access at present.

2.4 Alternatively, if EEC grants or discounts are retained it is possible that the credit advanced to the consumer may be relatively modest. We note, and agree with, Ofgem's view that suppliers will need to offer substantive credit (para 5.9.9) to justify non-terminable contracts. However we believe that guidance will be needed to clarify the sums which will qualify as substantive. Clearly this also has some bearing on the length of contract. Whilst a five year term may be appropriated for recovering costs for an extensive package of measures it is more difficult to justify locking consumers in to long contracts for lesser amounts. We have some concerns that the suggestion of a five year term will mean this becomes the standard contract length. We would expect Ofgem to require suppliers to offer a choice of contract, allowing consumers to spread the cost of repayment over a period they consider appropriate, as is common in other credit markets.

2.5 In the case of priority group consumers our primary concern is to ensure that the trial (and indeed any permanent arrangement that follows if it is successful) does not lead to energy services contracts being sold to consumers who are eligible for grants which will provide much the same range of energy efficiency measures free of charge. In our view the conditions for the trial must include measures which preclude this possibility.

### **3 Energy advice**

3.1 This has implications for the advice provided to consumers before they are offered an energy services package. We are encouraged to note that there is an expectation that advice should be provided in person during a home visit, although we believe that it would be preferable if this was a mandatory requirement. We note that telephone or questionnaire based advice is considered exceptional (para 5.9.1) but we have reservations about the wisdom of distance selling of energy efficiency packages, as

well as being somewhat sceptical about the likelihood of take up where advice and information is not provided face to face.

3.2 In our view it will be essential that the advice offered to any householder includes specific reference to the availability of grants, particularly via Warm Front and EEC. Clearly where the householder is in receipt of a qualifying benefit for one of these schemes arrangements should be made to instigate referral to the appropriate source. We think that the energy advisor should take responsibility for this, rather than simply leaving information about application procedures. Where there are any indications that the householder may be entitled to a qualifying benefit(s) but is not actually receiving it the energy advisor should also take steps to verify eligibility before any energy services contract is drawn up.

3.3 This is consistent with our view that the advice offered should be for the benefit of the household, rather than serving the interests of the supplier in securing a contract. We are aware that some suppliers already offer this kind of “benefits health check” and that they claim in many instances to have facilitated claims which have significantly increased household income. Adding this element to a home visit to provide energy advice will also help to deliver the objectives of Ofgem’s Social Action Plan.

3.4 Similarly we see this home visit as an opportunity to offer tariff advice where appropriate, thereby assisting the consumer to maximise financial savings. However we assume that energy services contracts will be available regardless of payment method, with the possible exception of prepayment where we accept the legal and practical difficulties. Since the consultation does not specifically refer to this issue it would be helpful if Ofgem clarified that energy services contracts are not confined to consumers who pay by direct debit or who agree to switch to this payment method.

3.5 We agree that the Code of Practice for Energy Efficiency Providers developed by the Energy Efficiency Partnership for Homes should be mandatory where advice is offered with a view to selling an energy services contract (para 5.9.2)

#### **4 Prepayment consumers**

4.1 Clearly tariff switching is one method by which prepayment consumers might gain access to energy services contracts. To the extent that these contracts are attractive to consumers it might also be an additional incentive for switching to a cheaper payment method. However we are aware of the attachment many consumers have to a payment method that facilitates household budgeting. Whilst there are obvious concerns that prepayment customers will effectively be discriminated against by denying them the opportunity to sign an energy services contract we accept the practical and legal difficulties which might preclude this. However, we have consistently maintained that suppliers might usefully target their EEC provision to prepayment customers, particularly given evidence that this payment method is predominantly used by low-income consumers. This might now also offset concerns that prepayment consumers are being further disadvantaged by market developments.

#### **5 Savings threshold**

5.1 We also accept the wisdom of setting a savings threshold to ensure that suppliers do not limit the measures they are prepared to offer. Since these contracts can contribute to the achievement of EEC targets it will be important to provide this kind of additional safeguard. Accordingly we have reservations about Ofgem's preference to set a higher savings threshold without "cherry picking" rules. (para 5.9.6) However, consistent with our view that the advice offered should be for the benefit of the householder rather than the supplier, we would in any event expect the full results of the audit to be shared with the customer. We do not believe that suppliers should have the capacity to preselect the measures it is prepared to offer from the menu of improvements suggested by an audit. Nor can we see how it would be possible for an energy advisor to provide sound and comprehensive advice if prior decisions have been made about the measures to be offered. It is a necessary consequence of this approach that suppliers should offer finance to support the choices made by consumers themselves.

## **6 Financial savings**

6.1 We agree with Ofgem's proposal that the package must be expected to save money for the consumer (para 5.9.7). We take this to mean that the benefits from lower fuel bills in the longer term will outweigh not just the cost of the measures installed, as Ofgem suggests, but also the cost of the credit advanced. Suppliers will need to take some care in explaining this to consumers, many of whom may have difficulty in grasping the concept of lifetime savings and how this relates to bills which recover the cost of improvements over a five year timescale.

## **7 Consumer protection**

7.1 We agree that separate presentation of charges on bills should be maintained. However we believe that there should be some guidance on the way that suppliers deal with arrears. Our understanding is that separate charges provide protection against disconnection for non payment where consumers pay sufficient to cover the costs of consumption. We think that guidance to suppliers should confirm this as well as indicating how they should deal with any payment default.

7.2 We approve of the requirement that consumers should receive written quotes and an independent second opinion on the improvement package (para 5.12.4-6). We consider that the quote should also state the unit charge for the standard terms of supply to allow consumers to compare these against the new contract offer.

7.3 We agree with Ofgem's observation that boiler replacement will sometimes mean that the consumer interest is better served by a shorter cooling off period (para 5.12.7). However this prompts us to suggest that there should also be some standards within the contract which specify a maximum time limit on works being completed. We are aware that some current grant schemes have long waiting times, particularly for heating measures. We also assume that any payments on new contract terms would only commence once all the works agreed had been completed. We cannot find any reference to such a requirement in this consultation document. We acknowledge that the issue of waiting times is related to capacity within the industry. We think that Ofgem should liaise with the managing agents for Warm Front on this issue, to

monitor whether work undertaken to meet the requirements of energy services contracts has any impact on waiting times for Warm Front.

7.4 We agree that consumers should have the right to terminate the contract by paying off any arrears but we would welcome clarification of what a reasonable administration charge might be and the likely cost of a suppliers hedging arrangement (para 5.12.9)

7.5 We agree that product guarantees should be offered and that, as a minimum, these should apply for the duration of the contract (para 5.12.10)

## **8 Evaluation**

8.1 We welcome Ofgem's commitment to a thorough evaluation of the trial. Given the concern that energy services contracts prohibit switching we consider that the assessment of consumer benefits should be compared with the theoretical savings that could have been achieved by switching to more competitively priced offers.

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