

Ofgem: Suppliers' Social Initiatives Consultation

eaga plc – Background

eaga welcomes the opportunity to respond to this Ofgem consultation on the social initiatives of energy suppliers. We also recognise and welcome Ofgem's commitment to continued monitoring of energy companies' performance in relation to vulnerable customers.

eaga has worked with Government and local authorities to help fight fuel poverty for over seventeen years. We provide services, products and solutions that address the social, environmental and energy efficiency objectives of Government and the private sector throughout the UK, as well as in North America, India and the Republic of Ireland. The largest provider of residential energy efficiency solutions in the UK, eaga are a majority employee-owned plc working for Defra, Welsh Assembly Government, Department for Social Development, Utilities and Local Authorities in managing the delivery of fuel poverty and energy efficiency programmes. We fit or repair a central heating system every minute of every working day, and deliver improvements in over 1,000 UK homes daily. To date we have delivered assistance to over 5 million vulnerable households in the United Kingdom through the installation of heating and insulation measures.

eaga also fully support Government's policy on Energy Performance Certificates, and believe this policy to be a significant development in the promotion of energy efficiency. Through our UK-wide network of home assessors, we have over seventeen years' experience of assessing the energy efficiency of households and providing valuable energy advice.

As well as our energy efficiency and social commitment, we are committed to helping the environment and combating climate change. eaga Renewables provide renewable energy solutions for housing and commercial properties, specifically through the installation of solar thermal panels. This work is carried out in the entire housing market, both with private-funded work and public-funded work. For example, in addition to a number of installations with Local Authorities and Housing Associations across the UK, eaga Renewables and eaga Social Housing Services are currently working on a large-scale installation of solar-thermal systems for Birmingham City Council, and eaga Renewables recently completed a major solar thermal installation at Northumbria University

Further to this, the independent Eaga Partnership Charitable Trust (Eaga-PCT) is a grant-giving trust that currently supports projects and research in two main areas: the relief of fuel poverty and the promotion of energy efficiency; and vulnerable consumers with multiple needs and preferences. Since 1993, eaga has given over £3.1 million to the Charitable Trust to distribute grants.

Context

With just two years to go until the Government reaches its first legally binding target to eradicate fuel poverty, the situation on the numbers of households in fuel poverty is more severe than at any point since those targets were first adopted.

The key driver in tackling the issue must be to ensure that adequate funding is provided – through whatever mechanism – for capital programmes that tackle fuel poverty in a sustainable way. Clearly, there are partnership arrangements with energy supplier initiatives that can be considered, explored and developed in this regard.

Additionally, in light of record energy price rises and their sharp negative impact on the most vulnerable homes in society, we feel it is important to question the premise that the competitive energy market is working for vulnerable customers.

Currently, the competitive market structure and the concept of switching offer little in the way of mitigation for those in fuel poverty. For example, FPAG have previously suggested only 35% of prepayment users (a group disproportionately represented among the fuel poor) are likely to switch supplier compared with an average 50% across the market. This lack of benefit to vulnerable consumers was apparent as much as four years ago, as the Economic and Social Research Council found at the time¹.

Areas for further action in supplier initiatives

eaga believes that the often confusing array of socially-orientated programmes run by energy suppliers mean customers that are struggling to pay their bills often have no idea what help or support is available from their energy supplier.

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<http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/PO/releases/2004/april/switching.aspx?ComponentId=2101&SourcePageId=1405>

As energywatch put it in May 2007: “the lack of a blueprint or common point of reference in the development of these products has led to confusion for those consumers who stand to benefit”². They even estimate that only one in fifteen vulnerable or fuel poor households benefit from the suppliers’ programmes. Given that this group is likely to include those who would experience the most difficulty in obtaining and analysing the requisite data to make the most appropriate decision for their situation, we would like to see the framework include constructive analysis of this problem.

Clearly, more can be done to help vulnerable customers make informed decisions about their choice of energy supplier. The announced pilot project between eaga, Ofgem, Defra and energy suppliers to trial switching advice under Warm Front, may prove to be a useful portent that provides one model for how suppliers might partner in delivering social initiatives.

Consideration should be given as to how this might be aligned with initiatives such as Benefit Entitlement Checks (BECs). Already delivered across Warm Front, BECs are an extremely useful policy instrument in identifying additional income that can tackle fuel poverty at source.

A targeted and effective programme of BECs, allied with tariff / switching advice, could have a substantial impact for vulnerable consumers, and suppliers should be encouraged to explore this route further in examining social initiatives.

The recently announced initiative to provide energy suppliers with information on clients receiving benefits could also be instrumental in enabling them to target appropriate customers for assistance, but the roll-out of this proposal will require considerable care on the part of Government and the energy companies.

Analysing results

We believe any framework should offer analysis of the ways in which suppliers are working to ensure their vulnerable customers are benefitting from the best prices available to them.

eaga also believes Ofgem’s framework should consider reporting on the delivery of suppliers’ initiatives as part of greater programmes in addition to providing outlines of their voluntary initiatives. We believe

² Energywatch: A Social Responsibility? May 2007
http://www.energywatch.org.uk/uploads/a_social_responsibility_executive_summary.pdf

this would provide a more complete picture of their role in assisting vulnerable customers.

We hope that continued scrutiny from Ofgem will motivate the suppliers currently doing least to improve their performance in this area. We also hope that Ofgem is able to offer advice to suppliers on at least a set of minimum standards for accessibility of their programmes, in addition to setting proposed targets (based on market share) to ensure no supplier is disadvantaged.

Wider points

eaga also believes Ofgem's framework should consider reporting on the delivery of suppliers' initiatives as part of greater programmes (EEC/ CERT, Warm Zones and so on) in addition to providing outlines of their voluntary initiatives. We believe this would provide a more complete picture of their role in assisting vulnerable customers.

eaga shares the widespread concern that competitive pricing is not proving successful in providing optimal value for the majority of consumers. In light of record price rises and their sharp negative impact on the most vulnerable homes in society we feel it is important to question the presumption that the competitive energy market is working for vulnerable customers. In a time when hugely escalating prices are the norm, competition and switching now offers little in the way of mitigation for those in fuel poverty. For example, FPAG have previously suggested only 35% of prepayment users (a group disproportionately represented among the fuel poor) are likely to switch supplier compared with an average 50% across all users³. This lack of benefit to vulnerable consumers was apparent as much as four years ago, as the Economic and Social Research Council found at the time⁴. We remain disappointed that more is not being done to help vulnerable customers make informed decisions about their choice of energy supplier.

FPAG's Sixth Annual Report very clearly stated that resources for capital investment fuel poverty programmes needed to be increased by a significant amount. Any supplier initiatives around revenue investment or expenditure will be rendered short-term – arguably even peripheral – unless the more sustainable policy solutions are adequately funded.

³ FPAG Third Annual Report 2004/05

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<http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/PO/releases/2004/april/switching.aspx?ComponentId=2101&SourcePageId=1405>

Conclusion

Fuel poverty is a hugely visible and important issue both for the public and for the Government. Neither Ofgem nor Government however, can fail to recognise the increased importance of securing the highest possible energy efficiency in the dwellings of low income households, particularly given the context of rising energy prices. We support FPAG's conclusion that without this recognition and without the necessary resources for core Government fuel poverty programmes, the statutory fuel poverty target will not - in spite of the other useful actions – be reached⁵.

We believe that recent fuel price increases are central to the current fuel poverty debate, and represent the biggest threat to the achievement of the Government's 2010 and 2016 targets. As fuel prices continue to increase, an ever greater number of people are falling into fuel poverty.

eaga welcomes Ofgem's continued review of suppliers' social initiatives. However, its usefulness in demonstrating and quantifying the assistance that suppliers offer is slightly mitigated by some shortage of analysis on how effective this assistance has been. We believe similar analysis of the effectiveness of the other social initiatives that suppliers are now offering in terms of real impacts on customers lives would be extremely useful in indicating their value. It is also important that the synergistic relationship of suppliers' social targets and environmental targets not be lost. The findings of Energywatch's review of suppliers' social tariffs provides a worrying indicator of attitudes towards these programmes, showing as they do the lack of financial backing the majority of suppliers provide for their programmes⁶.

Energy supplier initiatives can be additive and can have a considerable impact; however without tackling the main issue of funding for core capital programmes, then supplier initiatives become peripheral and presentational, as opposed to genuinely impactful.

The key to future working must focus on resources for core Schemes; on Partnership arrangements to boost core programmes and on tailored, specific advice programmes that can boost income and ensure vulnerable customers are on the correct tariffs. The mix of steps provides the optimal blend for removing households from fuel poverty in a sustainable way.

⁵ FPAG Sixth Annual Report 2007, p29

⁶ <http://www.independent.co.uk/news/uk/home-news/energy-suppliers-are-profiteering-from-poor-people-770191.html>