



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Cynaliadwyedd
The Sustainability Committee**

**Dydd Iau, 10 Ebrill 2008
Thursday, 10 April 2008**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg. Mae hon yn fersiwn ddrafft o'r cofnod. Cyhoeddir fersiwn derfynol ymhen pum diwrnod gwaith.

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included. This is a draft version of the record. The final version will be published within five working days.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Lorraine Barrett	Llafur Labour
Mick Bates	Democratiaid Rhyddfrydol Cymru (Cadeirydd y Pwyllgor) Welsh Liberal Democrats (Committee Chair)
Alun Davies	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Darren Millar	Ceidwadwyr Cymreig Welsh Conservatives
Karen Sinclair	Llafur Labour
Brynle Williams	Ceidwadwyr Cymreig Welsh Conservatives
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Phil Biddle	Pennaeth Effeithlonrwydd Ynni, E.ON UK Head of Energy Efficiency, E.ON UK
Wendy Davies	Cyfarwyddwraig, Golwg ar Ynni Cymru Director, Energywatch Wales
Guy Johnson	Cyfarwyddwr Rheoleiddio, RWE Npower Director of Regulation, RWE Npower
Ann Loughrey	Pennaeth Cyfrifoldebau Corfforaethol, Scottish Power Head of Corporate Responsibility, Scottish Power
David Walter	Pennaeth Prasio Ynni, Cynigion a Chyfrifoldeb Corfforaethol, Nwy Prydain Head of Energy Pricing, Propositions and Corporate Responsibility, British Gas
Richard Westoby	Pennaeth Prasio a Rhagolygon, Scottish and Southern Energy Head of Pricing and Forecasting, Scottish and Southern Energy

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Keith Bush	Cynghorydd Cyfreithiol Legal Adviser
Joanne Clinton	Dirprwy Glerc Deputy Clerk
Dr Virginia Hawkins	Clerc Clerk
Bethan Roberts	Cynghorydd Cyfreithiol Legal Adviser

Dechreuodd y cyfarfod am 1.04 p.m.
The meeting began at 1.04 p.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Mick Bates:** Welcome to this meeting of the Sustainability Committee. I have some housekeeping announcements to make about our usual procedures. In the event of a fire alarm, you should leave the room by the marked fire exits and follow the instructions of the ushers and staff. No fire alarm test is forecast for today. Please ensure that all mobile phones, pagers, BlackBerrys and so on are switched off, because they interfere with the broadcasting equipment. I also remind you that the National Assembly for Wales operates through the medium of both the Welsh and English languages. Headphones are provided, through which instantaneous translation can be accessed. For those who are hard of hearing, headphones may also be used to amplify the sound. Interpretation is found on channel 1, and the verbatim feed is on channel 0. Please do not touch any of the buttons on your microphones, as this can disable the system, and please ensure that the red light is showing before you speak. I have received apologies from Lesley Griffiths today.

1.06 p.m.

Tlodi Tanwydd yng Nghymru Fuel Poverty in Wales

[2] **Mick Bates:** Today we are taking evidence on fuel poverty in Wales from Energywatch and five of the largest energy supply companies currently operating in Wales: Centrica plc, E.ON UK, Scottish and Southern Energy, Scottish Power and RWE Npower. Before that, it is my pleasure to welcome—again, I believe—Wendy Davies, director of Energywatch, to this meeting. Energywatch has published a report on energy pricing in Wales and fuel poverty. I invite you to state your name and position for the record, Wendy, and briefly outline the findings of your research to the committee.

[3] **Ms Davies:** My name is Wendy Davies, and I am the director of Energywatch Wales. The report's initial findings, which have not yet been published, as I only had a final draft yesterday, are that, when we compared Welsh electricity prices with GB electricity prices, we found that a 10 per cent higher premium was paid in Wales. We compared the prices, and from those prices we deducted the usual charges that go to make up an electricity bill, which include grid charges, transmission losses and so forth. Having taken out those costs and the costs to serve, we are left with an amount that we cannot account for, which means that a higher premium of between 3 and 4 per cent is paid by electricity customers in Wales compared with the rest of GB. The initial report was looked at for the simple reason that we have growing concerns about the levels of fuel poverty in Wales, and one of the contributing factors to fuel poverty, as we all know, is higher prices.

[4] **Mick Bates:** Thank you. Members will now ask a series of questions. We have approximately 40 minutes for this evidence session. I will start by picking up on one of the points that you mentioned. From the evidence that you have gathered in your as-yet-unpublished report—thank you for attending today to give us this information—you said that our average prices are 3 to 4 per cent higher. Can you further confirm that prices, on average, are 8 to 10 per cent higher in the south Wales region, and 4 to 6 per cent higher in north Wales, which includes Cheshire and Merseyside, as I understand it, compared with Britain as a whole?

[5] **Ms Davies:** Yes, that is right. Electricity prices are regionally based, and, when you look at the transmission and distribution costs, because they are based on the regions, there is a differential between north and south Wales. The average is masked if we look at Wales as a whole. So, our report and our investigation breaks up north and south Wales, and shows

differentials between the two as well.

[6] **Mick Bates:** Thank you; I am sure that there will be further supplementary questions on this issue, but we move now to Lorraine Barrett.

[7] **Lorraine Barrett:** Can you confirm that your research indicates that about half of the higher energy prices in Wales can be identified as being a result of higher supply costs?

1.10 p.m.

[8] **Ms Davies:** Yes, that is correct. We can account for half of them. If we look at the 10 per cent premium in south Wales, for example, we can account for just over 5 per cent of those. If we take out the costs to serve—including metering—the transmission and the distribution costs, the renewables obligation, as well as the carbon emissions reductions target, and compare what was left with the rest of GB, there is 3 to 4 per cent that we cannot account for. Our research was not able to look into wholesale prices, or the pricing policies of the energy companies, because that is confidential and commercial.

[9] **Lorraine Barrett:** Okay; I do not think that I can push that one any further.

[10] **Mick Bates:** There are four elements to the bills—the costs to serve the customer, the regulated obligations, which we cannot change, grid charges and network losses. I am sure that we will investigate these, as we go forward.

[11] There are two supplementary questions on that, from Alun Ffred Jones and Brynle Williams.

[12] **Alun Ffred Jones:** My question is on the difference between north Wales and south Wales—or north Wales and Merseyside. Rather surprisingly, costs seem to be slightly lower in north Wales—do you know what accounts for that?

[13] **Ms Davies:** It accounts for the difference in the network cost—the grid charges, and so on. The findings of the report that we have state that the analysis of the cost of network losses are higher on average in Wales than in the rest of the GB. In south Wales, we calculated that consumers pay £20 a year more than elsewhere in GB for grid charges, and in north Wales they pay only £4 a year more.

[14] **Alun Ffred Jones:** And yet you do not know why that is so, do you?

[15] **Ms Davies:** Grid charges and losses are calculated nationally, so there is a calculation that is used. Part of the analysis that we have now would indicate that we will be looking to call on Ofgem to review how those calculations are made.

[16] **Mick Bates:** I remind the committee that the infrastructure for transmission and distribution is not under the ownership of the people who sell the electricity, although they might be in similar companies.

[17] **Brynle Williams:** My question has been partially answered. I am fascinated by your calculation formula. Does the distribution cost—as with oil, for example—mean that, the further away you are, transmission costs go up? In north Wales we have the power station in Anglesey and we have the new gas-fired power station in Connah's Quay. Does this account for the lower cost, because you also have power stations in south Wales?

[18] **Ms Davies:** The easiest way to look at it is that there are costs attributed from the power station up to the meter. Those account for the transmission and the network costs—the

distribution costs. Therefore, on that element of it, the further away you are, the more losses are incurred, and that would indicate then that you pay a higher premium for that. However, what is concerning to us, and the research does not go this far, is that we are a net exporter of electricity in Wales. Therefore, to say that we are paying more for these areas is concerning; hence, we will be looking to Ofgem to perhaps look again at how these calculations are done.

[19] **Alun Davies:** This is interesting information, and there was a lot of food for thought there. I have a question on these distribution costs—the costs of getting the energy to us. I do not know whether you are in the best position to answer this, but it appears to me that there is no reason why Wales—south or north—is intrinsically more difficult, and I assume that it is in terms of geography, than any other part of the United Kingdom, or certainly England and Wales. We have relatively large urban centres, based in south Wales, with a more rural hinterland. That does not appear to be fundamentally different to anywhere else—Yorkshire, for example. Therefore, I do not understand why the costs in south or north Wales would be intrinsically higher than in other parts of the United Kingdom.

[20] **Ms Davies:** I share that view. You are right, I am not the right person to answer that question; the distribution network operators would be the best people to answer that. However, I share your view—it does not seem acceptable, if you like, that we are no different to other parts of the UK, yet we seem to be paying more.

[21] **Mick Bates:** That is interesting, but I remind the committee that this is part of the four aspects that make up the bill, and Ofgem is responsible for that and the location charge for gas and electricity. The discussion that we are having here applies mainly to electricity, which does lose power as you transmit it over greater distances.

[22] **Leanne Wood:** I am rather confused about this. If it costs more to transport over longer distances, I would have thought that the costs in north Wales would be greater than those in south Wales. So, I do not understand why they are not. Could you explain why the grid charges in the south Wales region are the highest of all 14 regions in Great Britain?

[23] **Ms Davies:** If you will bear with me for just a second, I will quote from the actual report that we have. It is, I am afraid, written in ‘consultant speak’, so it is not that easy to decipher.

[24] **Mick Bates:** Is this the same report that we have?

[25] **Ms Davies:** It is not. This is the full report with the initial findings of the research that we have conducted. It will be published in the very near future and will, hopefully, go some way towards explaining exactly what the differences are between the grid charges and the transmission and network losses. It is all explained in here.

[26] **Mick Bates:** Ofgem also has papers on it.

[27] **Ms Davies:** Yes, it does.

[28] **Mick Bates:** For Members, it is in paragraphs 5.4 and 5.5 of the paper that we have received.

[29] **Ms Davies:** As a basic background, the report just says that the delivery of energy through the electricity transmission and distribution grids to consumer meters is not competitive. That goes back to my earlier point that we need someone to look at that. The report also says that a number of companies operate localised or regional monopoly services providing these functions. That was also mentioned before about the distribution network operators and, obviously, National Grid for transmission.

[30] **Leanne Wood:** Thanks.

[31] **Mick Bates:** Are you wiser now?

[32] **Leanne Wood:** Well, I am okay.

[33] **Ms Davies:** I am with you on that one. [*Laughter.*] It is also fair to say that what it makes a point on in the report that we have, which we will publish, is that network use is provided on a non-discriminatory, open-access basis. So, the calculations are out there for all to see and those are the ones that we have used. They are general calculations that are used in each of the regions. Currently, the electricity suppliers are predominantly the only ones that price regionally. I am sure that the suppliers will be able to explain this a little better, but they are just starting to price gas regionally. I know that Scottish Power/Manweb is one of the companies to have done so.

[34] **Mick Bates:** Thank you. There are quite a few issues there regarding transmission costs, which we will take up again. I want to move on to the heart of today's discussion, which is fuel poverty. Darren, I think that you want to take up this point.

[35] **Darren Millar:** Wendy, thank you for the paper that you supplied before the meeting, but it does not go into any great detail regarding the programmes that are being provided by the energy suppliers in particular to tackle and deal with fuel poverty in Wales. Can you tell us about some of the best examples that you have come across in dealing with fuel poverty?

[36] **Ms Davies:** I obviously kept the level of detail brief. The main vehicle in Wales for tackling fuel poverty is the home energy efficiency scheme, even though it is accepted that HEES is an energy-efficiency programme as opposed to a fuel-poverty programme. Warm Wales is a prime example of a programme that is targeted more at the fuel poor. Its schemes are currently operating in Neath Port Talbot and Wrexham, though it is looking to expand them elsewhere. That is a prime example of what was intended when Energywatch made a request to the Welsh Assembly Government to help to form coalitions between the industry, local authorities, NHS trusts and voluntary organisations so that, collectively, they could target the fuel poor, where the resources are most needed.

[37] **Darren Millar:** What is Energywatch's opinion of the Welsh Assembly Government's decision to cap the spending on the HEES programme over the next few years and not to increase any allocations of funding at all, and of the huge backlog of work that is now building up as a result?

[38] **Ms Davies:** I think that it was very disappointed. I think that everybody out there appreciates that there are limited funds and resources available, but, at Energywatch, we urge the Welsh Assembly Government to use all the powers that it can to target resources where they are most needed, namely at the fuel poor.

1.20 p.m.

[39] **Mick Bates:** You will have seen that Help the Aged and Friends of the Earth are deeply concerned about the Government's role in combating fuel poverty, and they have said that they are issuing a legal challenge. In your experience, would such a legal challenge be relevant in Wales?

[40] **Ms Davies:** I would not want to get into the legality of it, and I am not that familiar with what Friends of the Earth and Help the Aged have laid down. Energywatch is calling on

the Government to provide legislation that will force suppliers to provide a proper social tariff.

[41] **Mick Bates:** On the Government's responsibility, in your paper, you say that, for every 10 per cent rise in fuel prices, a further—

[42] **Ms Davies:** Forty-eight thousand.

[43] **Mick Bates:** Forty-eight thousand people in Wales will fall into fuel poverty. You suggest that 22 per cent of households are currently in fuel poverty. The Government has a scheme, and you have just said that, with some regret, that scheme is capped, so, as prices increase and more people inevitably enter into fuel poverty—especially those on fixed incomes—what has Energywatch been doing, and what has the Government's response been to Energywatch on that?

[44] **Ms Davies:** This morning, Energywatch launched a supplier-switching campaign locally. We accept that switching supplier alone will not help to eradicate fuel poverty, and that the savings are maximised only if people in Wales have never switched before. Our recent research suggests that 44 per cent of people in Wales have never switched supplier, and we estimate that, if that 44 per cent did switch, we could save £47 million in Wales. That campaign was launched this morning, supported by the Minister for Sustainability and Housing, Jane Davidson, and it will roll out to all regions of Wales over the next three to four weeks, encouraging people to do that. We are also encouraging people to have more regard for their energy consumption. That is easy to say if you can reduce the amount of energy that you consume, but the people whom we are targeting with this latest campaign are those who are already using as little as they possibly can, because they cannot afford it. We are trying to make life easier for them, so that they can manage better.

[45] **Mick Bates:** I see that there is a great deal of interest in this point. We will start with Alun Ffred Jones.

[46] **Alun Ffred Jones:** With regard to those who are suffering fuel poverty in Wales—and this is another figure that is not in your report, so I do not know whether you can comment on it—it seems that the incidence of fuel poverty in north Wales is substantially higher than it is in south Wales. Again, this was surprising to me. Do you have any view as to the reasons why that is so?

[47] **Ms Davies:** Those findings came from the Assembly's Living in Wales survey, conducted in 2004. The reasons given in its findings, which I concur with, were that, predominantly, people in north and mid Wales have no access to mains gas, so the cost of fuel is invariably higher for them. To quote further from that research, 40 per cent of those whose main fuel is electricity are considered to be fuel poor, and that is frightening.

[48] **Mick Bates:** Can you repeat that statement?

[49] **Ms Davies:** Forty per cent of households that have electricity as their main fuel are considered to be fuel poor.

[50] **Mick Bates:** Is that for the whole of Wales or just north Wales?

[51] **Ms Davies:** That is for the whole of Wales.

[52] **Mick Bates:** Alun, do you wish to continue on that?

[53] **Alun Ffred Jones:** No, I am floored by that statistic.

[54] **Mick Bates:** It is an amazing statistic.

[55] **Darren Millar:** You mentioned the switching campaign. How will it be marketed? These days, the main reasons people switch supplier voluntarily are either because someone, usually from another energy company, raps on their door and offers what may not necessarily be the best deal out there, or because they have found a better deal on the internet. If you live in a constituency like my patch, in north Wales, where a significant proportion of the population is elderly and has no access to computers, you would find it difficult to switch. So, what is different about this switching campaign?

[56] **Ms Davies:** This switching campaign will look at all elements: how people pay, where they live, and what access to fuel they have. We are also running a campaign in collaboration with Age Concern, the Welsh Consumer Council, Citizens Advice, and everyone who has an interest in their local community. What we are saying to people is that, if you do not have access to online information, just phone Energywatch, and we will give you basic advice on how to switch, and help you through the process.

[57] **Darren Millar:** Okay. So it will be telephone-line driven, effectively. Call Energywatch, and it will give you advice regarding the cheapest supplier in your area, and ask you for the relevant information. Is that right?

[58] **Ms Davies:** Yes. We have also already briefed our partners in this, including Age Concern and the Energy Saving Trust. We have given them a full pack of the current price comparisons in north and south Wales. So, they have that pack to hand, and they are distributing it to their counterparts throughout Wales. When we will pin media locally, we will get in touch with those local agencies, so that they know that they can contribute to it, and they will offer advice as well.

[59] **Darren Millar:** Energy prices are a moving feast though, are they not? What might be the cheapest today might not be the cheapest tomorrow. How will you ensure that people have access to the most up-to-date information?

[60] **Ms Davies:** Energywatch produces comparisons, which can be sent out if someone just phones up. Every time the prices go up, we update them. So, as soon as we are aware of a price increase, we can update them almost immediately, and then print off the details and send them out.

[61] **Darren Millar:** Do you think that energy suppliers make it deliberately difficult to compare prices by using standing charges, different tariffs at different times of the day, and all that nonsense?

[62] **Ms Davies:** There are thousands of tariffs out there. The easiest way to show someone whether they could make savings is to keep it as basic as possible, which is what the Energywatch advice does. It compares median users, based on payment methods, and people can look along the columns in our table and see. That is the first step. The second step is to look at your last four bills, and work out your energy consumption, and then phone the company that has been highlighted as being possibly the cheapest for you. We give people a list of questions to ask. People ask those questions, and then determine, at that stage, whether it is the best deal for them. If they are still not sure at that stage, they can come back to Energywatch and we can help them further.

[63] **Darren Millar:** Another thing that people find difficult is knowing how to assess the quantity, particularly of gas, for example, when the metre reading compares in no way, shape or form to the bill, or when it is difficult to establish that using the formula on the back of the

sheet. I have tried to do it myself, and I am familiar with figures, but I have trouble trying to work out exactly how much I have used, and what they are charging me for.

[64] **Ms Davies:** Exactly. We are hoping that, if we can get a mandate for smart metres to be installed within the next 10 years, it will alleviate those kinds of problems in some way, because it will be easy for everyone to see, at any given time, how much energy they have consumed, and how much they have spent. However, in the meantime, what we are suggesting to people is that, if they cannot understand it, or make head nor tail of it, they can just pick up the phone—or they can do so until the end of September, at least.

[65] **Darren Millar:** I will be picking the thing up, I tell you. [*Laughter.*]

[66] **Mick Bates:** I am sure that there are issues there to pursue in our next scrutiny item, with the energy companies themselves. Brynle has the next question.

[67] **Brynle Williams:** Most of my questions have been answered, Chair. However, I just want to say that, as someone who switched supplier a couple of times a few years ago, this is beyond my comprehension. The tariffs are changing all the time, as you said. The thing is that one is tied into contracts for six, eight, nine or 12 months, or whatever. We cannot switch every month, but—

[68] **Ms Davies:** You can.

[69] **Mick Bates:** Yes, it is possible.

[70] **Brynle Williams:** I would hope so. The other point on switching is to do with direct debit, and what have you. Money is leaving your account before you know what you have paid for. However, you have answered most of my questions in your answers to Darren, so thank you.

[71] **Ms Davies:** I think it fair to say that the margins, or the savings, are not there if you have already switched. That is why we are targeting this campaign at those who have never switched. We feel that the people who have remained loyal to their energy companies are being charged higher prices. What we are saying to people now is, for the sake of competition—and that is what competition was brought in for—vote with your feet, and look around. It is a little difficult, but it is much easier to transfer supplier now than it ever was, and we will help people in every step of the process if they just pick up the phone and ask us to.

[72] **Brynle Williams:** The only trouble that I find with telesales is that I frequently get calls saying, ‘Switch to us, and we will knock 20 or 30 per cent off your bill’, but, regrettably, when one digs into it, one finds that there are no such savings.

1.30 p.m.

[73] **Ms Davies:** No. I accept that. There are rogue tactics out there; I think that we have all experienced them in all aspects of life, and not just in the world of gas and electricity. However, it is a question of trying to encourage people not necessarily to be more forceful, but to take control and be a bit more assertive, and to tell them that they are not interested.

[74] **Mick Bates:** Thank you. On that point, I will be assertive. I think that we get the message there. I am impressed with your knowledge of switching all of the time, Brynle. However, that is a function of a liberalised, competitive market.

[75] **Karen Sinclair:** I have a short question about switching. It is all very well shopping

around if you have no previous debts with your supplier. If you have a bad payment record because you are in fuel poverty and you are struggling, an alternative supplier will not want you. So, it is those who can pay their bills who can shop around, and those who really struggle are those who are stuck. Is that true?

[76] **Ms Davies:** It is true to an extent. However, Energywatch has had some success in that area in that we were able to push the suppliers on this and we have had agreement that, if someone's debt is less than £100, they can switch. Perhaps that is one of the questions that you could put to the panel of suppliers later in order to encourage them to help out those who are on low incomes more than they currently do.

[77] **Leanne Wood:** You referred to smart meters earlier; what role do you think they can play in reducing fuel poverty in Wales?

[78] **Ms Davies:** They can make quite a difference for the simple reason that, not only are you able to see in an instant how much you are paying or how much you are using, it will mean that you will no longer have estimated bills. Hopefully then, the fact that you do not have someone coming to read the meter all of the time will mean that the billing and account side of things will reduce. We hope that the energy suppliers will pass on those savings to the end user as time goes on. We accept that the meters are more expensive, but they save a lot of time, fuss, and effort. The complaints received by Energywatch on billing represent around 60 per cent of our complaints. If we were to do away with arguments about estimated bills and confusion about catch-up bills, then surely people will be much better off all round.

[79] **Leanne Wood:** Moving on, you say in your paper that suppliers should be able to provide a proper tariff. What would you consider a proper social tariff to be, and how would that differ from the tariffs currently available from the companies?

[80] **Ms Davies:** A proper social tariff should be one where the supplier offers the lowest price tariff to a consumer that they consider to fall within a certain category. Currently, a couple of the suppliers charge more on their supposed social tariff than on the standard credit tariff. We are calling for legislation to ensure that all suppliers have to provide a minimum social tariff, which would set criteria on who could access it. We do not want people to be prevented from accessing a social tariff because of the payment method that they choose, for example. It should be the lowest cost tariff that that supplier offers to anyone, irrespective of their payment method.

[81] **Mick Bates:** I would like to go back to a point made there about some suppliers not offering the lowest tariff. Is that correct?

[82] **Ms Davies:** That is right.

[83] **Mick Bates:** Can you identify these companies?

[84] **Ms Davies:** Energywatch conducted some research, which was published, on suppliers' social tariffs in February this year. It found that the social tariffs of Scottish Power, Npower, and British Gas, compared with some of the lowest price gas and electricity offers, were more expensive. The full research is available.

[85] **Mick Bates:** Thank you very much, I understand that now. That is very interesting information. Would those customers be able to switch?

[86] **Ms Davies:** It would again depend on whether they had a debt of more than £100. If they did, it would restrict their ability to switch.

[87] **Mick Bates:** On smart meters, we have already responded to the Energy Bill, in which the Government did not mandate the installation of smart meters. However, companies are undertaking trials to install smart meters. Alun, I think that you have a point about local authorities.

[88] **Alun Davies:** Yes. I will come to that, Chair. I cannot help but observe that we seem to be looking at a market that works very well for the better off, but not very well for the poor. That is a question of policy that we will probably need to address when coming to our conclusions. In paragraph 1 of your written evidence, you talk about the impact on Welsh customers of increasing fuel prices and you have made some assumptions, for example, that a 10 per cent rise in fuel prices will increase the number of households in fuel poverty by 48,000. Can you tell us where these assumptions come from and on what basis you have made such assumptions?

[89] **Ms Davies:** These assumptions were made in the Living in Wales survey, so they were actually commissioned by the Welsh Assembly Government: they are not Energywatch's assumptions. As the Living in Wales survey was conducted in 2004, the price rises after that would not have been taken into account, so they could not make a calculation, when they published the figures last year, of the actual numbers that were in fuel poverty. The latest guesstimate given, using that calculation of 10 per cent and 48,000, was a figure of 240,000 households in fuel poverty in 2006.

[90] **Alun Davies:** I can see that figure in your paper. We therefore have an estimate that 240,000 homes are in fuel poverty in Wales, which is an extraordinarily high proportion of Welsh households. There are just over 1 million households in Wales, so you are looking at something like more than 20 per cent of Welsh households living in fuel poverty, and that number is increasing as a result of increases in energy prices. Thank you for that answer.

[91] Can you talk us through some of the programmes that we have to address issues of fuel poverty? We have talked about the Assembly Government and I think that we are all aware of HEES and what else is being done by the Assembly Government. Could you talk to us about what you see as the role of local government? Do you see that local government could play an enhanced role in alleviating any of the symptoms of fuel poverty? I appreciate that it cannot address the root causes, but do you see any role for local government in addressing any of the symptoms that these households are experiencing?

[92] **Ms Davies:** I certainly do. A prime example of where local government can help and where it has been very successful is, again, Neath Port Talbot. I will use that example rather than Wrexham because Wrexham is ongoing, but Neath Port Talbot has finished its initial three years and the scheme is continuing for another two years because it has been doing good work. Local authorities invest in their local authority area, so they provide part of the funding, along with the supplier and the HEES money that is coming in, because everybody is tapping in to what is available. Working together as a coalition, they are better able to target that funding. They knock on every door of every household in that local authority area and they capture all. However, at the same time, they are not only providing energy efficiency advice; they are also providing people to help them ensure that they are getting the most that they can by way of benefits. I think that the amount quoted—I may be incorrect here—is an additional £2 million in benefits, just in the Neath Port Talbot area. So, it is about benefit health checks as well and the local authorities themselves have their own internal departments that can actually look at that and help people.

[93] **Alun Davies:** Thank you for that. In another part of your written evidence, paragraph 2.2, you describe prepayment meters as

[94] 'the most vivid example of punitive and discriminatory pricing policies in the energy

market’.

[95] That is fabulous phraseology. Can you sustain that?

[96] **Ms Davies:** I think that we can accept that the meters are more expensive, as are the costs of serving them because of the cost of the outlets and of updating the accounts more frequently than normal. We can see that there are additional costs, but surely there should be some way of offsetting the fact that the suppliers are getting money upfront from those customers, so that they could then look to equalise the amount that people pay for prepayment meters and standard credit. Two companies have already done that. Two companies actually charge the same rate for prepayment meters as they do for quarterly cash or cheque payments.

[97] **Alun Davies:** Which two companies are they?

[98] **Ms Davies:** They are Scottish and Southern Energy and EDF Energy, I believe. It can be done.

1.40 p.m.

[99] **Alun Davies:** The words ‘punitive and discriminatory’ imply forethought, not an accidental pricing policy that has an unintended impact on people. You describe it almost as a deliberate policy on the part of these companies to hit the weakest and the poorest.

[100] **Ms Davies:** That is our view based on the fact that, if two companies can do it, the others could also look for ways of standardising and equalising the payments.

[101] **Mick Bates:** Could I just follow that up by asking how they fund it, because there was a contention in some of the papers that, if you moved your prices on pre-paid meters, other customers have to pay for that—possibly the other 80 per cent who use pre-paid meters. Is that a correct assumption?

[102] **Ms Davies:** It is, and the Energywatch view on that is, and I quote, because I knew that I was going to be asked this:

[103] ‘Although cross-subsidy might not be its first choice for funding social tariffs, energywatch concludes that in the absence of adequate funding from either government or the industry, cross-subsidy represents the only realistic choice for ensuring that the social tariff’

[104] or equalisation will help towards the target that we have of eradicating fuel poverty.

[105] **Karen Sinclair:** Alun talked about prepayment meters and the fact that you are paying upfront when you have them installed, and I do not want to go back over that ground because the point was well made and does not need to be reiterated. However, fuel meters, in my experience, save companies from the bad publicity of disconnection because people actually volunteer to disconnect themselves, because they do not have the money to put in the meters. Have you done any research into how many people end up self-disconnecting because they do not have the money to put in? If people were paying quarterly, I do not think that they could not be disconnected if their children were under a certain age and so on, but if they are on the meters, they are effectively disconnecting themselves, so suppliers can wipe their hands of that because they did not do it.

[106] **Ms Davies:** Self-disconnection is a touchy subject for all. Before competition, when there were regional electricity companies, no-one could switch or do anything and they were able to monitor how many people did not buy a token or did not charge their card within 21 days. So if you did not do anything within 21 days, they were able to judge how many people

were self-disconnecting. When competition was introduced, because people switch to try to follow the money around, if you like, there is no quick, easy or cost-effective way of being able to trace those figures. With smart meters, you would be able to do that. There has been some research, but it is only anecdotal, in that Energywatch and others have asked consumers if they self-disconnect, for what reason and how often. I am not privy to those figures now, although we have them available. There is evidence to suggest that people are still doing exactly what you said.

[107] **Karen Sinclair:** Could I just come back in there? I visited a hostel for vulnerable young women, where they actually circulated the flats using someone's gas or electricity, if they had them, so this self-disconnecting is happening all of the time. It may not be for long periods of time, but even not being able to cook a meal for 24 hours is not funny. Most of us would never comprehend just how difficult that would make life.

[108] **Ms Davies:** I would be interested to hear you put that question to the panel after May, because now, with increasing prices, we have all heard the phrase, 'it is heat or eat', and we can all safely say, knowing what we know, that if people are having to make those decisions now, it will have a greater impact on those people who pay via prepayment meters.

[109] **Mick Bates:** Thank you, Wendy. Finally, Brynle Williams has a question on the effectiveness of these meters.

[110] **Brynle Williams:** In your paper, you propose a realistic and effective action plan to tackle fuel poverty, but what needs to be added by the Welsh Assembly Government's existing plan to make it realistic?

[111] **Ms Davies:** The Living in Wales data gave us more pointers in being able to identify who the fuel poor are, based on where they are living and the type of household they live in. More needs to be done with that because, just looking at what HEES achieved last year, we can see that the majority of the money for HEES was spent in south Wales, yet the research is telling us that people in mid and north Wales need to be targeted. We just need to make simple tweaks to the schemes that we already have there, namely HEES, to see whether we can target them better. We need also to come up with criteria between us all—it does not need to be something that the Assembly has to do alone. Hopefully, now, with the fuel poverty advisory group getting a new lease of life—it went out with an advertisement yesterday for a chair—we will be able to provide the view and the criteria, and work together to change things.

[112] **Brynle Williams:** What could the Assembly do to encourage customers in fuel poverty to switch supplier? We have discussed the matter pretty extensively, but do you have anything further to add to that?

[113] **Ms Davies:** We are very lucky, because the Energywatch Wales office has a consultative group here at the Assembly. Mick sits on that group, as do Janet Ryder and Mark Isherwood. All three AMs, with the Minister, have endorsed and supported our campaign, and we will be using those endorsements in their local areas. Whenever we are targeting regionally in the media, we will involve as many AMs as we possibly can, and that includes giving them packs about price comparisons so that, in your own constituencies, you can spread the word.

[114] **Mick Bates:** Thank you. As there are no further questions, we will draw this session to an end. Wendy, thank you very much for your evidence; we look forward to the complete report. Many issues have been raised, and I will make sure that Members have more information about the cost of distribution. At this first part of the meeting, I think that many of still do not quite understand why the distribution costs vary so much, and so it is something

that we need to investigate much further. I am certain that your evidence will prove extremely useful when the committee comes to make its recommendations. As I said at the beginning of the meeting, I intend to write to Ofgem, which has called for evidence by the end of April. In September, Ofgem will make a full statement. Thank you very much indeed.

[115] **Ms Davies:** Thank you for that, Mick. We will also be submitting our research findings to Ofgem, and we will urge it to look at them. Also, Energywatch is renewing its call for the Competition Commission to hold a full investigation of energy prices.

[116] **Mick Bates:** There have been quite a few investigations into energy prices. Thank you.

1.47 p.m.

Tlodi Tanwydd yng Nghymru—Cynrychiolwyr y Cwmnïoedd Ynni Fuel Poverty in Wales—Representation by Power Companies

[117] **Mick Bates:** I thank the representatives sincerely for their attendance, and for their response to our committee's call to examine the nature and effectiveness of policies and projects aimed at combating fuel poverty in Wales. I hope that from this session, we will all gain a better understanding of what the energy companies are doing to address the issue of fuel poverty. We have looked at your corporate responsibility statements. I also hope that we will gain a better understanding of those important factors that drive more people into fuel poverty and, in particular, of those actions that our Government in Wales can take to combat that.

[118] If I have two aims for this session, it would be to gain more understanding, to bring more transparency to what a bill means at certain times. As you may have heard me say already, I wish for the committee to respond to Ofgem's call for evidence during this month. A fuel poverty summit will be held later this month, of course, and then, in September, the intention is for Ofgem to make a full statement.

[119] Starting with Phil Biddle, I ask you to introduce yourselves for the Record, stating your positions and the names of your companies. Once you have introduced yourselves, you will have three minutes in which to make an opening statement before we move to Members' questions.

1.50 p.m.

[120] **Mr Biddle:** Good afternoon, my name is Philip Biddle and I am head of energy efficiency for E.ON UK.

[121] **Mr Westoby:** I am Richard Westoby from Scottish and Southern Energy and I look after its pricing, forecasting and energy-efficiency measures.

[122] **Ms Loughrey:** Good afternoon. I am Ann Loughrey, head of corporate social responsibility at Scottish Power. Previously, I was director of Energy Action Scotland, the fuel poverty charity.

[123] **Mr Johnson:** I am Guy Johnson, director of regulation at Npower.

[124] **Mr Walter:** I am David Walter, head of energy pricing, propositions and corporate responsibility for British Gas.

[125] **Mick Bates:** In the same order, if you wish to make an opening statement, then

please go ahead.

[126] **Mr Biddle:** E.ON is fully committed to supporting tackling fuel poverty along with Government and other organisations. We believe that the carbon emissions reduction target plays a key role in addressing fuel poverty along with a number of other tariffs and services that we provide to our customers.

[127] **Mr Westoby:** Thank you for inviting me to give evidence. I apologise in advance for not being able to speak Welsh. If there are any questions in Welsh, I may struggle. Scottish and Southern Energy is the UK's second largest supplier of electricity and gas, with around 8.5 million customers. It supplies energy in Wales through its SWALEC brand, which is how you may know us. It is involved in the generation, transmission and distribution of electricity and the storage and distribution of gas. It employs 14,000 people in the UK, and 1,200 staff are employed at SWALEC'S headquarters in Cardiff.

[128] On fuel poverty, first and foremost, SSE's greatest contribution in keeping levels of fuel poverty to a minimum is a company-wide responsible pricing strategy. While no-one can ever be sure what pressures will come to bear on prices, our aim at SSE is to continue to be among the first companies to cut prices and the last to increase them. Beyond that, customers living in fuel poverty can apply to go on our social tariff called energy plus care, which, as well as offering 20 per cent off bills, also includes free energy efficiency measures such as loft insulation. I endorse the previous speaker's point on social tariffs. It is also our vision that that should be the lowest offering to our customers regardless of payment method.

[129] **Ms Loughrey:** On the last session, I would like to emphasise and, for the record, correct the point made about charges for prepayment meter customers. Scottish Power remains the only energy company to set standard prepayment prices for gas and electricity lower than the standard quarterly credit prices. We think that that is a reasonably good deal for our customers. In fact, it benefits them to an estimated £11 million. So that is just a correction.

[130] On fuel poverty, it is important to consider the three aspects of fuel poverty. My previous background was in working and campaigning on fuel poverty for almost 20 years. When I joined Scottish Power, it was to look at what the industry could do and primarily what Scottish Power could do to contribute to the Government targets to end fuel poverty. A holistic approach, looking at income, is extremely important. There is around £9.3 billion unclaimed in benefit income—those are Government figures. Yes, fuel companies have an issue around fuel pricing and the products that they offer, but it is also about the condition of the housing stock and how energy efficient that is. I know that in your previous session you touched on some of the cutbacks in Government programmes and when targets are set, it is important that those three aspects are looked at holistically.

[131] **Mick Bates:** Thank you. I am sure that your comments on prepayment meters will be taken up by Members later.

[132] **Mr Johnson:** By way of introduction, I would like to talk a little about the carbon-emissions reduction target, because it seems to be the elephant in the room. If one looks at our CERT contributions, which were in the order of £40 million in the three years between 2002 and 2005, one sees that they now run at more than £100 million a year. If you look at Government statements in relation to fuel poverty, it is clear that it views the combination of the Warm Front grant together with expenditure on CERT as being a sign of an increased contribution towards fuel poverty. The CERT element of that expenditure is the expenditure of the companies sitting around this table. As you will know, at least 40 per cent of our CERT expenditure is on the priority group, namely those people over the age of 70 or in receipt of income or disability benefits. My colleagues and I sometimes feel as if there is a lack of credit

given to industry for that massive increase in the contribution that it makes towards fuel poverty through its CERT contributions. As we know, the installation of fuel efficiency measures will save around £200 a year for the customer for whom those measures are installed, which is a major contribution. It is a decline in the company's turnover—not that that is a problem; we fully support the principle of CERT—but it is a major contributor at a level that is growing faster than anything else in our business. It needs to be taken into account when we look at the whole fuel poverty issue.

[133] **Mick Bates:** Thank you very much. Of course, it is said sometimes that we need two strands—one strand to reduce carbon and one strand to reduce fuel poverty; CERT encompasses both. However, we will return to that later.

[134] **Mr Walter:** Traditionally, low energy prices had the effect of suppressing the fuel poverty issue, but we have now entered into a different era. UK costs are now heavily linked with higher European costs, and therefore we have seen volatility in retail energy prices. That has a profound effect on vulnerable and fuel-poor customers, and addressing fuel poverty is an important priority for British Gas.

[135] We led the way in the winter of 2006-07 in launching a large-scale social tariff, and we have made great progress towards building a base of 750,000 people on the tariff. Registered customers receive our lowest standard rates, which are monthly direct debit rates, irrespective of their payment methods. Given that some of the most deprived areas within the UK are in Wales, we see a fantastic opportunity to work with the Sustainability Committee on ensuring that Welsh households form a big part of this base.

[136] We are proud of what we do in the area of addressing fuel poverty, although we register that there is more ground to cover. This has been recognised; a recent independent report commissioned by Energywatch demonstrated that British Gas spends £64 out of every £100 invested by energy companies to address fuel poverty.

[137] However, it is important to note that fuel poverty is a complex issue with three primary drivers: the quality of housing, household income and energy prices. The key to success in this area must be to place equal pressure on each of those drivers. The biggest challenge for British Gas—and I am sure that we are not alone in this area—is to identify those homes that most need our help. There is a key opportunity for us to work together to identify those homes and get the help to where it is most needed.

[138] To summarise our approach to addressing fuel poverty, we already have 340,000 customers on our social tariff, built up over the past 14 months, and we continue to build towards our aspiration of having 750,000 customers on the social tariff. In addition to getting our lowest standard rate by monthly direct debit, these customers also benefit in other ways. For example, we deferred our recent January price rise for these customers until the worst of the winter was over, so they did not see a change in their rates until March. We have also invested in an independently-managed trust fund—the British Gas energy trust—which provides money and advice to customers to help them to get out and stay out of debt. That trust has also donated some £400,000 to organisations in Wales with the mission of addressing fuel poverty.

2.00 p.m.

[139] We have also installed 100,000 energy efficiency measures in Welsh homes through our CERT programme, which we think has an important role in improving the quality of housing. Through our Here to HELP scheme, we have also helped customers to identify unclaimed benefits; there are £1 million of unclaimed benefits in the Cardiff area alone.

[140] **Mick Bates:** Thank you for those opening remarks. As you are aware, Members will ask questions and there will also be supplementary questions. I hope to give each company in turn an opportunity to answer each question. We have approximately one hour to undertake this piece of scrutiny.

[141] I will begin with an assertion that you made in your remarks and in your paper, David, and I quote from your paper:

[142] 'In fact, around £7 in every £10 spent by energy suppliers on vulnerable customers initiatives is spent by British Gas.'

[143] Energywatch says that if all the companies did the same, a further £72.3 million would be spent on fuel poverty. I would like, for the record, each company to tell us how much it spends on alleviating fuel poverty and why it does not match the level spent by British Gas.

[144] **Mr Walter:** Over the past year, we spent £16.6 million on our social tariff. We also continue to invest in the British Gas energy trust, to which we are committed to a further four years at a cost of over £20 million. That is on top of our mandated obligation to complete CERT.

[145] **Mick Bates:** If members of the panel are happy with this, I will go straight down the panel.

[146] **Mr Johnson:** I would like to talk about Health Through Warmth, because it is important that people understand the range of programmes that the company has. We have Health Through Warmth co-ordinators in specific areas, including the Vale of Glamorgan and Wrexham, and their role is to identify customers whose health is suffering because their homes are too cold or damp. The programme involves working with local authorities, health authorities and others—it even works with vicars. It works with those kinds of people to identify people who are at risk, in order to take action. Action flows into many areas. It can mean identifying, for example, people who might be entitled to the warm front benefit and grants from local authorities. Action can mean help from charities and be assistance from Npower by way of direct contribution—

[147] **Mick Bates:** I do not want to interrupt but, just by way of introduction, I wanted to get information, for the record, on how much each company spends on alleviating fuel poverty.

[148] **Mr Johnson:** The reason I am saying this is because that expenditure gets a zero allocation from Energywatch. We get no credit for it whatsoever. The work that we do is fantastic and the people whom we help are desperately in need of that help. We have just committed a further £4.5 million for that programme but, on this Energywatch allocation basis, we get zero for that. So, I raise it because the benefits that have been leveraged through that scheme are £30 million. That is not all our money, but we operate it and we contribute money to it. I am just trying to flesh out a little that there are several schemes that we view as extremely important that would not necessarily be categorised within this social tariff and/or rebate, which is the specific, direct, if you like, allocation. If you wish to classify it in those direct terms, our expenditure in those areas is of the order of £1 per customer, which is around £7 million.

[149] **Mick Bates:** The figure that you have put on the record as spend on alleviating fuel poverty is £7 million a year.

[150] **Mr Johnson:** Yes, in those specific programmes, but not including programmes such

as Health Through Warmth and CERT. That is the point.

[151] **Mick Bates:** There will be an opportunity, after this meeting, to provide us with more information. We welcome your papers, which contain a lot of information. However, in chairing this committee, I would like clarity on what each company spends on alleviating fuel poverty. Ann, I will turn to you next.

[152] **Ms Loughrey:** Our current spend is £3.2 million, although, like all the suppliers, we are holding discussions with the UK Government on how to increase the spend. The UK Government has an aspirational figure of £150 million, and we are all currently in discussions about how to reach that aspirational target. Our current spend is £3.2 million, and that is made up from our trust fund, our social tariff and the work that we do through our community liaison officers. On the point of leverage, which is very important, we know that, with some of the work that we are doing in terms of income maximisation, where we are paying for a post in a citizens' advice bureau or something like that, for every £1 that we invest into such projects, £20 is leveraged back in unclaimed benefit. That is significant. By the way, that is outwith EEC or CERT; these are additional social initiatives.

[153] **Mick Bates:** Many of the points that you are trying to raise will come up through Members' questions, so can we stick to the basic point about how much your company spends on alleviating fuel poverty?

[154] **Mr Westoby:** I am sorry, Chair, but I have a problem with the measuring stick that we are using. Going back to the point about the social tariff, if we are measuring benefits that are between two sets of tariffs in the British Gas case, and the customer is better off, even if they are not fuel poor, on our direct debit price, that is measured as being a benefit to us at Scottish and Southern Energy. That should not be included in the spend. So, the way that this measurement is done does not seem to me to be correct. I believe that there are figures available, although I do not have my hands on the ones for that measure, but we would come out relatively low on that, because of the particular principles that we apply to the way that we tackle this. We are keen on this £150 million programme, and we intend to play our full part in it.

[155] **Mick Bates:** An assertion was made in evidence today that a further £70-odd million could be forthcoming to combat fuel poverty if all companies did the same as British Gas.

[156] **Mr Biddle:** I believe that the figure is around £10 million, but I would like to take the opportunity to clarify that afterwards.

[157] **Mr Westoby:** To come back on that point, doing the same as British Gas would mean that we would have to put our prices up to British Gas's level and then reduce them down to a level that is higher than ours is now. I doubt that that would help the fuel poor or anyone else.

[158] **Mick Bates:** As I said, I offer you the opportunity to provide further detailed information on this, but, for the record, we need to know how much and what resources each company spends in order to alleviate fuel poverty. I would thank you if more information were forthcoming.

[159] **Alun Davies:** Thank you for the papers that you provided before today's meeting. Reading through them, two things stood out for me. First of all, you all agree that the UK has the most liberalised and competitive market, which works for everyone, and secondly, you have a plethora of different programmes and initiatives that are designed to alleviate fuel poverty. One thing that came out of the earlier session with Energywatch, for me, was that the liberal, competitive market works well if you are well off or highly educated, but it works less

well for those who do not fit into those categories. That was quite striking, and I would be interested to hear what you think about that.

[160] The second element of my question is that, when we talk about fuel poverty—although I appreciate and understand the work that you are doing to alleviate fuel poverty and what lies behind it—I cannot help thinking that one of the causes of fuel poverty is high fuel prices. The best way to alleviate fuel poverty is to reduce prices, or certainly not to pass on to customers some of the vast increases that we have seen over the last few months, at a time when you all appear to have been making extraordinarily high profits out of this competitive market. As companies, you are trying to have it both ways, and I am not sure that the poor in society benefit either way.

[161] **Mick Bates:** We shall start in reverse order this time.

[162] **Mr Biddle:** First, it is important to recognise that an energy company makes profit in a number of different areas. It will make money through its retailing division, its energy generation, its trading activity and its distribution activity. When we talk about the profits that such a company makes, mine included, it is important to recognise that it comes from several distinct activities.

2.10 p.m.

[163] On retailing, I do not believe that E.ON makes an extraordinary profit. We are seriously impacted by the cost of wholesale gas, and thus, through the purchasing strategies that we adopt, rather than exposing customers to the short-term volatility of pricing, we tend to buy gas in the long term. Once those contracts come up for renewal, depending on what is happening, we are then exposed to either increasing or reducing prices as a consequence. What we look to do in E.ON, particularly through our partnership with Age Concern and local authorities, is to focus and to encourage customers to reduce their bills through energy efficiency measures, in order to help offset the price rises that have, unfortunately, come through. On the back of the recent price increase that E.ON put through, we mailed all our customers, offering either discounted or free energy efficiency measures as part of a price mitigation activity.

[164] **Mr Westoby:** On the supply business, taking the Energywatch figures for its regional comparisons, stacking them up against current wholesale prices, and the published costs for transmission and distribution—particularly if you look at gas at present—and working out the margin would be a very illuminating exercise. This is not a high-margin activity. It may be a different story in other parts of the energy business, but supply is a competitive activity. We are keen on that competition; we have aspirations to increase our customer base, and we have been increasing it rapidly.

[165] On the benefits, I would endorse what the last speaker said—the benefits are there most of all for customers who switch and who find the best deals. That is what competition is all about—those who partake in the market, and hunt out the best deals, will do best in this market. You are probably right that it is unfortunately the case that the best educated, and those with the best access to information, do this more readily. However, it is incumbent on all of us to improve the information. We want competition, and we want to build our customer base. We believe that we have the most competitive offering in the market, for most customers, so we are keen on getting customers to switch.

[166] **Ms Loughrey:** Again, this is about having a holistic approach. If I understand your question, it is along the lines of whether the fuel poor benefit through competition, or are they being left out in the cold, if I can paraphrase that. If you look at profits, and then look at the fuel poor and the price of prepayment charges, then you can simply come up with, ‘This is not

fair'. However, the solutions and the challenges for us as a supplier, given the cost of fuel and the range of products, and for the UK Government, in terms of income, are significant. It is still there, and it is still a problem.

[167] As Scottish Power, we have what we call our savings challenge, that we launch every year, to try to get to customers who we know have not switched. What we do not know, as was referred to in the opening remarks, is who is fuel poor, because we do not have the data. I do not mean that as a get-out-of-jail card, but you could target resources to those most in need if you knew who those people were. I would argue strongly that you need a joined-up approach to tackling fuel poverty, where the Government scheme kicks in with the insulation measures, or the EEC or CERT schemes kick in, so that the practical work is done, the advice is given to the householder, they are put onto the best tariff for them and their needs, and they have a benefits health check and are on all the income to which they are entitled.

[168] I am staggered at the unclaimed benefits in this country. Some of the case studies—which we would be happy to share with the committee—show that these are not traditional benefits, such as income support, they are things such as the family tax credit, where people are working and are not claiming benefits to the extent of about £8,000 or £10,000 a year. That would make a massive difference to all of us, never mind the fuel poor. Therefore, I am not trying to avoid the question, but I believe that we need to take a joined-up approach to identifying the fuel poor, to tackle it holistically, so that we take those people out of fuel poverty for the long term. It is not just about being on a particular product or tariff; it is about touching on all of these points.

[169] **Mr Johnson:** I want to make one comment in response to the allegation that the market may be working better for the wealthy than for the poor. I know that prepayment meters are viewed as a proxy for fuel poverty, but our churn or switching rate for prepayment customers is twice that of direct-debit customers or those who receive a bill. That would suggest that it is working across all areas.

[170] In relation to profits and prices, when we increased our—

[171] **Mick Bates:** I am sorry, Guy, but I do not think that Members caught your initial remarks about the switching figures.

[172] **Mr Johnson:** Sorry. I said that prepayment meters are used as a sort of proxy for the fuel poor, but the switching rates of our prepayment customers are twice those for direct-debit or receipt-of-bill customers.

[173] I then went on to talk about the point on pricing and profitability. When we increased our prices, we took a number of measures. For example, we did not increase our prices for our First Step customers, namely those on our social tariff. We gave rebates of between £80 and £100 to 50,000 of our most vulnerable customers, and we delayed the price increase for our token prepayment customers. So, we did a number of things in that area. However, retail profits are very tight. We were not profitable in our retail business in the second half of 2007. I believe that I am correct in saying that E.ON has said publicly that it did not make money in its retail business in 2007, and does not expect to do so in 2008.

[174] **Mr Biddle:** That is correct.

[175] **Mick Bates:** Is that confirmed?

[176] **Mr Biddle:** Yes.

[177] **Mr Johnson:** As you can imagine with a business of that type, we are looking at a

number of cost programmes, with all of the consequences that flow from that. So, this is not a business making excess profits.

[178] People have touched upon generation. In the area of generation, we are spending £190 million at Rhyl flats, £175 million at Aberthaw, and £800 million at Pembroke, for example. There is massive investment in generation at the moment. That is driven in part by the closure of plants through the large combustion plant directive, but, more importantly, by the change in the carbon emissions profile. We will be hugely cash-negative over the next 10 years in the generation business.

[179] **Mick Bates:** To follow up that point, I believe that you will have the first example of carbon capture soon.

[180] **Mr Johnson:** Yes, at Aberthaw.

[181] **Mick Bates:** When do you hope to start that?

[182] **Mr Johnson:** We hope to do it in 2010 or 2011.

[183] **Mick Bates:** Thank you. David is the last to answer.

[184] **Mr Walter:** Your question was in two parts. Is the market working better in relation to switching for some sections compared with others? We see levels of switching across all payment types, across all regions, and across different consumption levels, for large and small houses. I can see a role for widening the scope of switching services. We have seen an innovation in the marketplace over the past few years with internet switching sites coming to the fore. So, further switching mechanisms that are not provided through the computer or the internet would be a welcome development. So, we would welcome the scheme proposed by Wendy. I am sure that we will see the emergence of more commercial schemes of that nature.

[185] It is worth focusing for a moment on some of the support that we give across the range of society through our Here to Help scheme and specifically through targeted charity partnerships with Help the Aged, Save the Children, National Debtline, and Carers UK. We ensure that we target and present the right support to different sections of the community. We also continue to work on simplifying our bills and various customer communications, and I think it worth highlighting here that we also make clear the availability of our social tariff, through that bill mechanism, so that it is presented to households through that route.

2.20 p.m.

[186] The second part of your question was about fuel prices and profits, and I think that it is probably important to set some context here. Over the past few years, we have seen extreme volatility in the wholesale energy market. We have moved to become a net importer, which has further driven that volatility, and I think that one of the roles of energy companies is to provide some smoothing of the peaks and troughs of energy costs over time. To give some examples of how that has worked out, in the first half of 2007, British Gas made solid profits, but in the second half of the year, margins were cut to only 1 per cent. That followed the first half of 2006, when we made a net loss of almost £150 million and the second half of 2005, when we also lost £75 million. The six-year average margin for our business has been 3.6 per cent, which is low in comparison with FTSE comparator companies.

[187] To pick up on one point that was raised earlier, the problem with low prices for all as a proxy for fuel poverty support is that it would rather crowd out the focused targeted investment that you should be making to address the needs of the most vulnerable and fuel-poor households in the country. To crowd out that effort would be a real shame. Our social

tariff works by reducing our prices to our lowest standard method, which is payment by monthly direct debit, irrespective of meter or payment type. We think that that is a very equitable way of dealing evenly with the issue of fuel poverty for qualifying households.

[188] **Mick Bates:** We will come to metering in a moment. In view of the time available to us, I would ask Members and company representatives to try to keep to the point of the question, please. We have a further 35 minutes only. Karen, Leanne and Darren want to ask brief supplementary questions.

[189] **Karen Sinclair:** It is just a very brief supplementary about switching supplier, because I also asked the previous evidence-giver about it. How would you feel or how do companies feel about people who want to switch who have debts?

[190] **Mr Westoby:** There are arrangements in place for companies to transfer customers as long as they can agree on the debt. To my knowledge, those arrangements usually work. The fact that a customer has debt does not mean that he or she cannot switch; as long as there is an agreement between the suppliers, it need not stop the customer switching.

[191] **Karen Sinclair:** So, you discuss among yourselves whether you will release the customer or whether you want to take that customer on.

[192] **Mr Westoby:** Yes, there is a protocol in place to address a debt that you are indicating was there in the past.

[193] **Ms Loughrey:** That is my understanding as well. I know that the smaller the debt, the easier it is for a customer to switch. I think that mention was made in the previous session of a debt of less than £100, when we are obliged not to block that switch. I think that all the companies are keen to do what they can to switch customers when it is practical to do so. However, my understanding is the same as Richard's.

[194] **Mr Johnson:** I have nothing further to add.

[195] **Mr Walter:** I have nothing to add.

[196] **Mr Biddle:** I do not have anything to add, either.

[197] **Leanne Wood:** My understanding is that Welsh customers are less likely to switch than customers in other parts of the UK. Can anybody confirm that?

[198] **Mick Bates:** Ann, you have the first chance, if you need it.

[199] **Ms Loughrey:** I cannot confirm that. I do not know. I could certainly let you know and provide that information for you, but I do not know now.

[200] **Leanne Wood:** That would be helpful. If that theory is correct, I put it to you that, as companies, you are keeping prices high in Wales because people in Wales are less likely to switch, and keeping the prices down for those customers who are more likely to switch and thereby force competition. Do you hold regular meetings with each other? If so, do you discuss prices in those meetings?

[201] **Mr Westoby:** In the particular areas where SWALEC operates, we are the supplier, and it is probably true that the market share of the historic, incumbent supplier is relatively high. As statistics show, our prices are particularly competitive, and perhaps that is one reason why customers have been less prone to switch to another supplier.

[202] As for the other question, there is no discussion of prices between suppliers, certainly nothing that involves Scottish and Southern Energy, and I am not aware of any discussions on prices between other suppliers.

[203] **Mick Bates:** We will take your word for it.

[204] **Mr Johnson:** You may be referring to an article in *The Sunday Times* four or five months ago, which suggested that the former Electricity Association was a forerunner for those kinds of discussions. We have had no discussions on prices with any of our competitors. We have clear guidelines as to what we can discuss. The new Energy Retail Association also has clear guidelines, and, among other things, it puts up a laminate board in its office, which states what cannot be spoken about. I asked what happened when meetings were held outside the central office, and I was told that the laminates would be taken to those meetings, and put up. So, we have clear guidelines, and it has clear guidelines. I have looked specifically at this matter, and I do not think that any discussions on pricing whatsoever are held in that forum.

[205] **Mick Bates:** Would anyone else like to add to that?

[206] **Ms Loughrey:** I would just agree that, to my knowledge, we are forbidden from doing what you have said. There is a code of conduct in the supply licence and with the ERA, which states that we are not allowed to have that kind of discussion.

[207] **Mr Biddle:** Absolutely not.

[208] **Mick Bates:** What is this laminate board that you refer to?

[209] **Mr Johnson:** It is a series of guidelines of dos and don'ts.

[210] **Mick Bates:** It is a protocol, in a sense.

[211] **Mr Johnson:** Yes, it is, but rather than its being a policy statement that is documented somewhere, it is a board that is put up on the walls of meeting places.

[212] **Mr Walter:** The previous supplementary question related to sensible rules allowing customers with debt to switch, and that would be exactly the sort of thing that would be appropriate to discuss within the ERA, to the benefit of the country at large.

[213] **Mick Bates:** Leanne, are you happy with that?

[214] **Leanne Wood:** Well, not happy, but I am content with those answers.

[215] **Mick Bates:** I was just wondering whether we could have a copy of your laminate board, as I am sure that it would be useful for us at certain times.

[216] **Darren Millar:** I am a little confused, because all the respondents so far have got out their violins and handkerchiefs, and said how small their profits are, as a percentage of turnover. I just wonder which parts of the business are making the huge profits that these companies are reporting. David Walter, your company recently reported profits of £571 million, so which division within your business are they coming from? If they are not coming from individual householders who are in fuel poverty, you must be making money somewhere else.

[217] **Mr Walter:** The profits that you referred to are British Gas profits. As I cited before—and I will be brief, so that we do not run the clock down on this—the context is that of extreme volatility. We made solid profits in the first half of the year, and we made a

margin of 1 per cent in the second half of the year, on the back of making losses in the first half of 2006 and losses in the second half of 2005. So, we see volatility, both up and down, and, over the past six years, we have made an average margin of 3.6 per cent.

[218] **Darren Millar:** Which other parts of your business make money?

[219] **Mr Walter:** We make money within various parts of our business. For example, we have a services division, which is the largest provider of boiler maintenance, and we have a boiler installation business—

[220] **Darren Millar:** Is the boiler installation business to provide more energy-efficient boilers, for example, to customers?

[221] **Mr Walter:** Yes.

[222] **Darren Millar:** So, you are making money on the back of your service obligations as well, are you?

[223] **Mr Walter:** Of course, we install the most efficient boilers to customers' homes.

[224] **Darren Millar:** But you make money out of it as well. So, it pays you to advise your customers to be more energy efficient, because you can make money on the installations or on any other work that is carried out.

2.30 p.m.

[225] **Mr Walter:** The purpose of the carbon-emissions reduction target is for it to operate within a market mechanism. We make different returns on different parts of completing that CERT obligation. Referring back to the purpose of this discussion on fuel poverty, a large part of CERT will be completed for priority groups, such as fuel-poor households and vulnerable customer groups.

[226] **Darren Millar:** I am not trying to catch you out here; I am simply making the point that you make money on the electricity supply and you make money from supplying customers with more energy-efficient boilers. You are making money every which way you can on the customer base that you have, are you not?

[227] **Mr Walter:** Yes. That is the nature of business.

[228] **Darren Millar:** Of course.

[229] **Mick Bates:** I think that we get the point. Does anyone else wish to comment on the issue of profitability? I see that you do not. Alun, I take it that you have finished with this point and are happy enough for us to proceed. Lorraine is next.

[230] **Lorraine Barrett:** I am totally confused. There are so many figures. I am trying to find a level playing field for you all, but, from what you were saying earlier, when Mick wanted to know how much each company contributes to fuel poverty projects, it does not exist. I am as interested in the percentage of your profits or income that that represents rather than the amount, because Richard Westoby said that your prices are lower than those of British Gas. I am just looking for that level playing field. People must find it so confusing when deciding which supplier to switch to; I know that I am confused. Part of Old Labour is coming out here, as I am thinking, 'Oh, nationalise energy'. That would make matters much easier, and there would be just one Government to blame for anything.

[231] **Mick Bates:** Thanks for your philosophy. Let us have a question, please.

[232] **Lorraine Barrett:** I am coming to my question, but I just wanted to make that little preamble.

[233] Looking at the social tariffs, which you have already talked about quite a lot, Energywatch suggests that you provide proper social tariffs to customer. What does each company see as the purpose of a social tariff? To be honest, that has sort of been covered, but what is the lowest cost tariff that you offer? Energywatch suggested that social tariffs were not necessarily the lowest cost tariffs. Could you say something about that?

[234] **Mick Bates:** If I remember correctly, it is Guy's turn to answer first.

[235] **Mr Johnson:** Npower has a First Step tariff as a social tariff, launched in 2006. That provides customers with the cheapest tariff, irrespective of their payment method. Currently, that is more than £240 cheaper for a dual-fuel customer than our standard direct debit prices.

[236] To come back to your initial point, I am not surprised that there is confusion. One of the problems here is that we have a lot of difficulty with that Energywatch number, for example, which I have said before. Our difficulty with it is that, at its most extreme, we not believe that we should be doing the Health Through Warmth scheme, even though it gets a zero amount credited to it for the purposes of that programme. We do have a social tariff, and we do offer rebates, which I have spoken to you about, but we also do an awful lot of other things. Many of them relate to identifying the customers to whom we wish to give benefits and assistance. As part of today's discussion, I would say that anything that can be done by you to assist in moving forward the discussions about data sharing would be terribly helpful, because we do not want to spend our moneys on identifying the fuel poor; we want to spend our moneys on helping the fuel poor. At the moment, however, that is quite difficult.

[237] **Mr Walter:** In relation to your question about confusion, I guess that I would refer you, if you have not already digested it in detail, to the Energywatch report on social initiatives, which was prepared by Cornwall Energy Associates. It identifies that British Gas has the programmes in place to spend 0.49 per cent of turnover on schemes that address fuel poverty, with our nearest-run competitor spending 0.16 per cent of its turnover, I believe.

[238] Having said that, it has already been mentioned that we are all in discussions with Ofgem and the Department for Business, Enterprise and Regulatory Reform on a voluntary scheme that is prequelled in the budget statement, which will further demystify this area and encourage the other five suppliers to move broadly up to British Gas's level and a little beyond in the overall scope and scale of the programmes.

[239] I agree with Guy that it is a shame for all parties to waste money on trying cleverly to find the data to identify those households that need our help the most when they can be easily identified via the benefits claimed by those households, to be found in various Government databases.

[240] **Mr Biddle:** On the social tariff that we offer through StayWarm, it is important to recognise that it is a capped tariff, and therefore the customer pays the same regardless of usage. So, if you talk about a rate-per-unit tariff, we would need to come back and explain the typical rebate or amount of money that customers do not pay above what they should pay because we cap the amount. So, to answer the original question of what is our lowest tariff, I would need to come back to you and confirm that.

[241] **Mr Westoby:** I sympathise with the confusion and I am hoping that, given the £150 million programme soon to be agreed with the Government to go forward, our code of

practice will improve the transparency of the whole system and put some common principles in place. It is designed particularly to do that. A key point, which you are right to emphasise, is the social tariff. When we measure these numbers, let us set the social tariff as something that we deliver to the fuel poor, so that it is actually the lowest tariff and so that the charge is not measured at some level above what ordinary customers pay by direct debit.

[242] **Ms Loughrey:** We launched our social tariff in February, and it means a saving of £112 to customers. To correct something that was said in a previous session, that is equal to our direct debit rate. I wish to put that forward for correction in the notes for today.

[243] There is also a wider issue relating to the company standard concerning complaints and overall service. The point has already been made that if you offer lower prices to customers paying by direct debit and that is not recognised as a social tariff, it should be. Today, I have a hat on that relates to corporate social responsibility more broadly, so—and I know that I have had a run at this a few times already—you cannot just look at a one-size-fits-all approach to tackling fuel poverty. Giving someone a social tariff carries a bit of stigma. However, you want people to get the best product for them in their circumstances, with a good standard of service and with the insulation package for the property to make it as energy efficient as possible, along with all the benefits and income to which they are entitled.

[244] **Brynle Williams:** To add to the confusion—

[245] **Mick Bates:** Please do not.

[246] **Brynle Williams:** I will not add to the confusion, because this is quite simple. I am trying to follow on from what Lorraine was getting at. The simple fact today is that we need to simplify the tariff. The core of people who are subject to fuel poverty do not even understand it. However, what we all understand is how much that social group at the bottom is suffering—and I am sorry to say it, but you have all sat here today, and we know how much profit you make. You need to be a professor to work out what you are entitled to. We have heard it being said here. It is time that simple tariffs were put forward for people to understand what they can and cannot claim. I am sorry to have to say that, but, following Lorraine's point, we must all think about the people whom we are trying to protect. You are at the top making profits, and they are stuck at the bottom and do not even understand how to go through their bill.

[247] **Mick Bates:** The key issue is demystifying the system for people.

2.40 p.m.

[248] **Darren Millar:** To pick up on that issue quickly, before I ask the question that I was planning to ask, why are people stigmatised if they are on a social tariff? I do not know what my neighbours' tariff is for their power or energy supply, so why would people be stigmatised because of that? If you are encouraging people to take up benefits, surely that is more of a stigma than a social tariff?

[249] **Ms Loughrey:** It is more of a general comment from having worked in this area for a long time. Many people are not aware of what they are entitled to receive, as the previous speaker's comments showed. Older people particularly do not like being labelled as being on a particular product or receiving a particular service. Based on my previous experience of working with Scottish Power, as well as some of the corporate social responsibility work that I do, I know that it is sometimes quite difficult to get people to take what they are entitled to. We have to make it easier for them.

[250] **Darren Millar:** So, do you mean that people stigmatise themselves rather than

feeling stigmatised by others?

[251] **Ms Loughrey:** Yes. Awareness-raising of entitlement should be done, and we can engage with customers through trusted intermediaries such as citizens' advice bureaux and other not-for-profit organisations. That is what the Scottish Power Energy People Trust does to build up the trust of client groups, to get them to claim all the things to which they are entitled, and have the right products. My experience is that people do not necessarily come to their fuel companies for that kind of help, so we have to bridge that gap. That is where I was coming from.

[252] **Darren Millar:** Fair enough. I have a question to Guy and David. Why are your companies' social tariffs higher than some of the other tariffs that you offer to your other customers?

[253] **Mr Johnson:** I will have to get back to you on that. I heard that in the earlier evidence, which is different from the information that I had. However, I have heard the point, and I will come back to you on it, if you do not mind.

[254] **Mr Walter:** We charge our lowest standard rates, our monthly direct debit rates, on our social tariff. We have a range of tariffs that do different things for different customers, and the lowest rates available at the moment are through our Click Energy tariff, which is a niche product offered for online self-service, and clearly has much lower costs associated with administering the accounts. It is important to point out that the social tariff closely matches the needs of this customer group, which is why we deferred the move to put our prices up in January until the worst of the winter was over for this group of customers.

[255] **Darren Millar:** That is all very laudable, but why is your social tariff higher than some of the other tariffs that you charge customers when you know that these are the most vulnerable people in your customer base?

[256] **Mr Walter:** It is the effect of having to provide those low online rates to a large group of customers. We are committed to affecting a large group of customers, and we have all heard about the scale of the issue of fuel poverty in the UK, but, if we were faced with rolling out those niche product prices to a wide group of customers who were not low cost to serve, we would have to withdraw the online tariff.

[257] **Darren Millar:** Why is your lowest social tariff online when most of the people whom I assume to be in fuel poverty would not have access to online facilities to be able to change their tariff anyway?

[258] **Mr Walter:** I am sorry, but I do not understand the question. Our social tariff is not our online tariff.

[259] **Darren Millar:** Sorry, I did not quite grasp that. It is commendable that you have 340,000 people on your social tariff—

[260] **Mr Walter:** And we have plans to build it up to 750,000 people.

[261] **Darren Millar:** But that is still a very small percentage of your overall customer base, is it not?

[262] **Mr Walter:** We have a customer base of 16 million accounts, so it is a significant portion of that.

[263] **Darren Millar:** It is less than 3 per cent.

[264] **Mr Walter:** I will yield to your superior rapid mathematics.

[265] **Darren Millar:** Some of the other companies are even worse—E.ON has a 2 per cent take-up rate.

[266] **Mr Walter:** The commitment is in place for British Gas to build this up to 750,000 people, and we would welcome the support of this committee and the Welsh Assembly Government in helping us to get to that point. You have seen us take a clear leadership position in this space and, when we get there, we can discuss what comes next.

[267] **Darren Millar:** How do you market your social tariffs? I am sorry to labour this point, but it is important, Chair.

[268] **Mick Bates:** No, it is fine. I will also ask Alun Ffred to come in on a point that he wishes to raise.

[269] **Darren Millar:** How do you market your social tariffs? How do you ensure that your customers who may be eligible can access them? Presumably, most of you are sending bills out to your customers on a regular basis. Do you put at the bottom, ‘Are you eligible for our social tariff?’, or do you not want them to take that up?

[270] **Mr Walter:** I will come in with a brief answer on that, if I may. We advertise our social tariff through a range of targeted mechanisms. So, it is included in our bills. It is also marketed through those specific charity partnerships that we have that help us ensure that we address the different groups of fuel-poor customers. It is easy to be lulled into a view that the fuel poor are all aged, but we recognise that there are young families and people in a range of circumstances who are struggling, which is why we work with the range of charities that we do. All of this is efficient and effective but, clearly, not as effective as having direct access to the benefits data, which would allow us to go straight to those homes.

[271] **Alun Ffred Jones:** You said that you would like our support in trying to identify this group of people. What role could the Welsh Assembly Government play in helping the energy companies to identify households living in fuel poverty?

[272] **Mick Bates:** I believe that it is your turn to lead, David.

[273] **Mr Walter:** The accepted proxy definition for fuel poverty—I think that we know the real definition of fuel poverty, which is spending 10 per cent or more of disposable income on energy bills—is a list of benefits, namely benefits that are held in the Department for Work and Pensions database and in other departments. We continue to lobby DWP for—and we would welcome your support in this effort—a data-matching exercise between our customer base and customers who are receiving qualifying benefits.

[274] Wendy mentioned in her opening remarks that the Living in Wales survey had identified where the concentrations of fuel poverty were, and there may be a further data-driven opportunity to match the Living in Wales survey to our customer base.

[275] **Alun Ffred Jones:** I am not quite sure whether that was addressed mainly to the UK Government. Do any of the others have any comments on this issue?

[276] **Mr Biddle:** I fully support the previous comments.

[277] **Mr Westoby:** Any information, for example from local agencies or groups, that you have that we do not and which helps us target these customers would be useful. Finding the

customers is a difficult challenge.

[278] **Mick Bates:** It is a difficult issue, because of data protection legislation. It works in the same way as you not having to declare the details of your businesses. So, an interesting point lies behind all this. I can see everyone nodding, and we are all aware of this. It is a difficult issue to overcome. Alun, did you have a question?

[279] **Alun Davies:** Yes. I want to return to the issue of differential tariffs because I am not sure, frankly, that any of you have been very convincing in arguing the case for why people are being charged the amounts that they are being charged. The creation of fuel poverty, which is happening at present because of increasing fuel bills—and I would not go as far as our Conservative friends, because I believe that you need to make some profit—

[280] **Mick Bates:** That is an interesting twist.

[281] **Alun Davies:** I have real concerns when that profit seems to be at the cost of the poorest in society. That is particularly directed at those companies that charge differential rates, for example, for prepayment meters. In the previous session that you witnessed, I asked Energywatch about its description of prepayment meters as a,

[282] ‘vivid example of punitive and discriminatory pricing policies’.

[283] When I pressed the witness on that, she was very clear. She said that this is not simply rhetoric. She said that she believed that the energy companies who charge differential rates—and it is you whom I am addressing—deliberately and with forethought and knowledge of the impact that it has on the poorest people in society, charge them a punitive writ for this service. That is quite a statement to make in anybody’s book. It is incumbent upon you to respond to that criticism.

2.50 p.m.

[284] **Mick Bates:** It is Phil’s turn to start.

[285] **Alun Davies:** The question is for the companies that charge differential rates.

[286] **Mick Bates:** It is, but it is for everyone to comment.

[287] **Mr Biddle:** As you might expect, I would challenge and disagree with that comment. I believe that E.ON charges a fair rate, recognising that different costs to serve are associated with these customers. However, it is certainly not discriminatory or the other words that were referenced.

[288] **Mr Westoby:** We are not one of the companies that were being referred to, because we have equalised our rates for electricity prepayment, but we still have a surcharge on gas. The motivation for taking the surcharge off electricity was to try to help alleviate fuel poverty, although that it is a crude instrument, because it is reckoned that only about 25 per cent of customers on prepayment meters are fuel poor. I do not believe that those companies that are charging a surcharge do so with any malicious intent. Why would they? At the end of the day, if there were big profits in having prepayment customers, which is what you are suggesting, we would be seeing companies rushing to try to get in that type of customer above all other types of customers.

[289] **Mick Bates:** That is an interesting point.

[290] **Ms Loughery:** Our prepayment prices are lower than for quarterly credit. I would

add a quick comment to the committee, namely that fuel poverty existed when fuel prices were low, and, in fact, the numbers of people in fuel poverty were higher then.

[291] **Mick Bates:** That is an interesting point. Would you like to elaborate on that? You are saying that more people were in fuel poverty when prices were lower.

[292] **Ms Loughery:** Yes. You can look at house condition surveys across Scotland, England, Northern Ireland and Wales, and you will see that documented. That is why I will go for what is probably the fourth run on saying that it is important to address all aspects of fuel poverty.

[293] **Mick Bates:** We have evidence in the graphs that what you are saying is quite true.

[294] **Mr Johnson:** I will open my remarks by saying that we believed that around 22 per cent of our prepayment customers would fall into the fuel-poor category, so it is definitely not a proxy for fuel poverty. Around 5 per cent of pensioners have prepayment meters, whereas pensioners make up 50 per cent of the fuel poor. Prepayment meters exist in a number of scenarios, such as buy-to-let homes, second homes and so on. So, one needs to be careful about assuming that the two are the same.

[295] There is definitely a cost differential between the receipt of a bill and prepayment. Our price differential is somewhere between a third and a half of that cost differential. So, it is incorrect, in our instance, to make the accusation that there is some kind of recovery that is in excess of the cost differential. That is absolutely not the case. In fact, it is the other way round.

[296] **Mr Walter:** I would agree with the points around cost differentials for prepayment customers. Further on the point of the distribution of fuel poverty among different payment schemes, the fuel poor break down into around a quarter who are on prepayment meters and 45 per cent who are paying by cash or cheque. This is the purpose of having a social tariff that equalises customers to your lowest standard rates. To pick up on an earlier point in terms of accuracy, a customer on our social tariff with a prepayment meter in the SWALEC region, for example, would pay £982 for dual fuel. If that same customer moved to SSE, on a prepayment meter, he or she would be paying £1,104, which is £122 more. So, you can see how our social tariff is creating a level platform for all of our identified fuel-poor customers.

[297] On the point on differentials, and costs to serve as an important part of that, I would highlight the role that smart meters could play in addressing that. Our view is that those differentials will shrink greatly with the roll-out of smart meters, and we are disappointed that, to date, there is no mandate for the roll-out of smart meters on a short timeline as part of the Energy Bill.

[298] **Alun Davies:** I share your disappointment on that final issue. However, I do not believe that those of you who charge differential rates have explained why your business model is deficient in this way. You answered my previous question, Mr Johnson, by using prepayment meters as a proxy for the fuel poor. Therefore, you need to appreciate that, on many occasions, you are penalising by policy some of the poorest people in society. It is incumbent upon you to explain why your business model is deficient and unable to create the same tariff regime as other companies working in the same market.

[299] You have described a competitive and liberalised market. I would have anticipated that, if the market was working in the way that you have described, there would be incentives for you to do so. It appears to me, going back to right where we started, that the market is incentivised for wealthy people, but does not create the same incentives for you as businesses and companies to change your business models to react to the real needs of the poorest

people. Fuel poverty was higher 10 years ago, but, since then, we have had a Government that has been committed to putting policies in place to reduce fuel poverty, which is what we are seeing.

[300] I agree with you that a liberalised market delivered low prices for a time. However, what is happening now is that your businesses are responsible for creating new fuel poverty among many vulnerable people. One way that you could alleviate that is through the social tariff, enabling more people to access that, and then to ensure that you have business models in place that mean that people who use prepayment meters are not being penalised; let us face it—it is no accident that that happens.

[301] **Mick Bates:** Do you wish to respond? I believe that that is directed mainly at you, Guy.

[302] **Mr Johnson:** The specific point is that we have looked at the cost differential. Obviously, all companies have different cost structures, different types of customers, and different profiles of customers. We have looked at the cost differential, for example, as I say, between receipt-of-bill customers and prepayment customers, and that cost differential is nowhere near reflected in our price differential. If you want to put it on a straight cost basis, we are not making more from those customers—indeed, we are making substantially less; we are not recovering those costs in our price differential.

[303] **Mick Bates:** Thank you. I would like to leave that there, Alun, because we are coming to the scheduled end of this meeting, and there are still issues that I wish to raise. Leanne has the next questions.

[304] **Leanne Wood:** What is your reaction to the research conducted by Energywatch, which showed that only about half of the higher prices paid by customers in Wales are due to higher supply costs? Why are prices in south Wales higher than those in north Wales—the region that includes Cheshire and Merseyside—and the rest of England?

[305] **Mick Bates:** I believe, Richard, that if we stick to our order, it is your turn to answer first.

[306] **Mr Westoby:** On the last part of the question, I believe that the Energywatch analysis explained the background in terms of use of system charges. There is another factor that you should take into account, in that the Energywatch paper looked at electricity alone. It looked at how far the pure costs of distributing and transmitting electricity were being passed through to electricity bills; it found that a big chunk of it was due to the distribution and transmission charges. In gas, for various historic reasons, most companies do not have regional price differentiation. However, there are substantial differences in the use of system charges in gas as well. Therefore, you might want to alert yourself to that issue in the future, depending on where market pressures take us.

3.00 p.m.

[307] Against the national average, in the south Wales area, for the distribution charges, charges in south Wales are 4 per cent higher than the national average, and transmission network charges on gas are 71 per cent higher than the UK average. The typical form of competition is to compete both for electricity and gas, so you can imagine, looking at the economics of the total customer that, if you could be purely cost reflective, gas prices in Wales would be higher as well, but they are not for most of us; we have stabilised it, so there is cross-subsidy in the other direction.

[308] The comparison in the Energywatch paper had some broad averages, which are fine

for doing comparisons between different suppliers in a region, but if you are talking about different regions, you need a cost reflection of the way that the tariff is made up, between standing charges and unit rates, as those averages will miss some underlying economics.

[309] **Leanne Wood:** I am a little confused; are you saying that there is no difference in charges between Wales and England if you add in gas and average it all out?

[310] **Mr Westoby:** From my memory of what was said—I have not seen the fine analysis—it was down to about 3 per cent. When you get down to 3 per cent, if you look at what is happening with other fuels and at the structure of the tariff, I imagine that these differences would get very small. Energywatch was looking across all suppliers, but we try to make our tariffs as cost reflective as possible across the piece.

[311] **Mick Bates:** I will briefly go along the panel. We have gone beyond our allotted time, but this is a crucial issue for us.

[312] **Ms Loughrey:** I only have information on north Wales compared with the rest of Britain, but I can provide you with more information if you want me to do so. I can send that on. In terms of how much more it costs, it varies between £3 and £7 per year if you are in north Wales compared with the rest of Britain. That is all I have at the moment.

[313] **Leanne Wood:** My understanding is that Scottish Power customers pay 15 per cent more for their electricity than customers in the south-east of England. Can you explain that?

[314] **Ms Loughrey:** I spoke to colleagues yesterday, and the figures that I have show a difference of £3 to £7. Perhaps I could clarify that and send the information to the committee.

[315] **Leanne Wood:** That would be useful.

[316] **Mr Johnson:** The information that I have is that our prices for quarterly receipt of bill and monthly direct debit, and for dual fuel for gas customers, in Wales are lower than the UK average. For electricity, they are on a par with the UK average.

[317] **Leanne Wood:** My information is that Npower customers in south Wales pay 12 per cent more for their electricity than customers in the east midlands.

[318] **Ms Loughrey:** Where did you get the information?

[319] **Leanne Wood:** I will have to get back to you, I am afraid; I do not have the source now.

[320] **Mr Walter:** I do not propose to discuss how our costs are structured in such an open forum. However, for context, we started by reading in the Energywatch paper that between 2 and 3 per cent of the differential is not explained clearly by cost. That equates to between £8 and £12 a year on an electricity bill. That gives a sense of the scale of what we are talking about. I would not expect a general report that has been pulled together using public information to understand the detailed and complex nature of the way in which the different costs interrelate for each company's customer base. Different areas will have different consumption levels, different switching levels, different competitive pressures, and different contact levels from the customer base. So, there will be a range of things that feed into the way in which the cost structure works. Having said that, we believe that all 14 of the regions are fully competitive. Six suppliers are competing hard for the business of customers within each of those regions; and we feel comfortable that that is the case. We look forward to working with Ofgem in this area as it seeks to clarify that.

[321] **Mick Bates:** Finally, Phil, do you have anything to add to that?

[322] **Mr Biddle:** Not really. In terms of our gas costs, I believe that they are consistent across the whole of Great Britain. I am not aware that there is a massive differential on the Welsh—

[323] **Leanne Wood:** I do not have figures for your company.

[324] **Mick Bates:** It is a very interesting point. Alun, did you wish to ask a brief supplementary question, before I move on to Darren?

[325] **Alun Davies:** Yes, I would like to come in on that. I do not believe that the competitive market works, if you see such price differentials. I am sure that you do feel comfortable—so would I if I was sitting on your side of the table. Would you, as companies, be happy to accept an equalisation formula or directive from Ofgem, if it comes to the conclusion that it is right that consumers across the United Kingdom pay the same sort of tariff, from different businesses, for their energy? Would you be content with that sort of regulatory directive?

[326] **Mr Westoby:** I would, if the background costs—the distribution and transmission costs—were equalised. It is about the package of other things that go with it, is it not? On the background costs, as was explained in terms of the Energywatch paper, we have very big regional differentials in the distribution and transmission costs of electricity and because there is historically a structure of regional pricing in electricity, they are getting passed on. In gas, those differentials exist now, but there is effectively a bit of cross-subsidy going on as far as suppliers are concerned, across the country, because, for most of us, we happen to live with a single gas price, which is for administrative reasons rather than anything else.

[327] **Alun Davies:** I understand the way in which the industry is structured and regulated, but my concern is that neither the competitive nature of the market nor its regulation have been able to satisfactorily resolve the issue that a pensioner living in Swansea, for argument's sake, is paying more for gas and electricity, from the same supplier, than a similar pension living in, say, Stevenage. I would have said that that is market failure. If there is market failure, because you have all talked about the competitive market and how it has delivered great things—I think that it has delivered some good things, so I am not going to be critical of that—it is not delivering a fair pricing structure for the United Kingdom as a whole. Therefore, we have a regulator that has a role to intervene in the market. I am asking you whether you would be content for the regulator to intervene in such a way.

[328] **Mr Westoby:** That is a big question.

[329] **Alun Davies:** It is not.

[330] **Mr Westoby:** The key thing that is driving this is a real difference in the distribution and transmission charges that we are paying. Someone needs to look at the distribution and transmission charges and say whether they are giving the right economic signals and whether they are correct. If it is judged that they are not correct, that they are not properly reflecting costs, then I am with you all the way. However, someone has to look at that and come to that view. If we faced a common cost, that would be a reasonable background for us to give a common price. I would be quite happy with that, but someone has to look at those costs.

[331] **Mick Bates:** Thank you. I will call for no further comments on that because I think that the discussion is quite conclusive, that someone has to look at those distribution and transmission costs, which was a conclusion that we came to in our scrutiny of Energywatch's evidence, and may well be one of our recommendations in our response to Ofgem. Finally, I

come to Darren.

[332] **Darren Millar:** Just before I ask the final question, I will go back to prepayment meters for one moment. A few of you have indicated, in your responses today and in the papers that you submitted, that only 25 per cent of those people with prepayment meters are in fuel poverty. Is not the reason for that that, once you have installed a prepayment meter in a property, it is always there, and you never take it away? That means that whoever moves in to that property, who may have a totally different income level, may not fall into the category of being in fuel poverty. Generally speaking, I understand that once a prepayment meter is installed, you rarely remove it, but perhaps you could give us some information on that.

[333] **Mick Bates:** At whom was that question directed?

[334] **Darren Millar:** All of them. Whoever wants to answer can chip in.

[335] **Mr Walter:** I will chip in. Customers moving in and out of prepayment households would have an effect, but I think that that would still make it inappropriate to treat all of those households that have prepayment meters, including people who have just moved in, as a solid proxy for fuel poverty. It is important that we find the fuel poor among the prepayment households and the credit-metered households.

3.10 p.m.

[336] **Darren Millar:** Perhaps I can clarify where I am coming from here. I am trying to establish why you leave prepayment meters in a property when the individual who was targeted for a prepayment meter is no longer there.

[337] **Mr Walter:** There are significant costs involved in switching in and out of different meter types. The sooner we get a mandate for the roll-out of smart meters, the sooner the industry will be in a position to switch much more instantaneously between prepayment mode and credit mode. I think that that will remove—

[338] **Darren Millar:** You have certainly convinced us on the smart meter front, but I do not think that that was a very convincing answer on the prepayment meters.

[339] I will move to my final question, which is, again, on switching. We discussed earlier, at some length, the problems arising from customers trying to compare tariffs, because there are so many of them, and I wondered what policies each of your companies has on dealing with switching. Many of you have door-to-door advisers and you could, therefore, find out whether an individual is in fuel poverty when someone goes to give advice, perhaps. I am sure that, very often, your companies offer to supply households when quite clearly your services may be more expensive than those of competitors. What are your comments on that?

[340] **Mick Bates:** If my memory serves me correctly, I think that it is Ann's turn to answer first.

[341] **Ms Loughrey:** Sorry, could you clarify exactly what you are asking about?

[342] **Darren Millar:** If Scottish Power, for example, knocked on the door of a householder in Cardiff who was clearly in fuel poverty and you were not the most competitive supplier in that area, and would therefore make the situation worse if that householder were to switch to you, what is the policy of your company? Do you tell your advisers not to sell to certain individuals? Why do you offer your fuel products when you know that they may well be very much more expensive than the supplier that people are already with?

[343] **Ms Loughrey:** That is a really good question. I do not think that we knowingly try to switch people who are in fuel poverty onto a dearer product, if that is what is behind your question. The people selling from door to door are given a clear code of conduct of how to sell, which they have to stick to, and I know that all suppliers have to meet those standards. Your question is a good one in the sense that, in an ideal world, none of us would put people on a product that will cost them more, but we are in a competitive market to sell, so I do not really have an answer for you.

[344] **Darren Millar:** So, your code of conduct does not include a clause that says that you should not sign someone up if it will cost them more?

[345] **Ms Loughrey:** Not that I am aware of; I do not know whether any of my colleagues could comment on that. I am not being funny when I say that it is a good question, because I do not think that we have anything that says that we cannot do that, but I also do not think that we deliberately set out to do it either.

[346] **Mr Johnson:** I have two comments that I would like to make. The first, which is perhaps not specifically on your question, but is related, is that, through our social programmes, we undertake home visit and try to encourage, as part of the whole non-debt and disconnection process, people who go to customers' houses to report back. In that way, we try to get a direct communication process, to ensure that those who are identified are made known to those who can draw the social tariffs to their attention, and so on.

[347] Secondly, in relation to the code on selling to which we all operate, we contact customers who have opened new accounts between one and 14 days after they have opened those accounts, to ensure that they are happy with the selling process, and so on. That may address some of what is behind your question.

[348] **Mick Bates:** That is a legal right, of course. Ann, you want to come back on that.

[349] **Ms Loughrey:** I just wanted to add that the principle of switching is to save customers some money, so our salespeople have to demonstrate to customers that they are going to save money compared with what they are currently paying.

[350] **Darren Millar:** However, your salespeople are ultimately there to make a commission on the back of a switch, so they are going to convince as many people as possible to switch. I am assuming that that may not always be in that customer's interests.

[351] **Ms Loughrey:** But that would then be the subject of complaints to Ofgem, would it not?

[352] **Darren Millar:** Only if people were able to compare directly. Many individuals are not able to compare one supplier's tariffs with those of another. Going back to this problem, the tariffs are so complicated for some individuals to work out, particularly for gas, and it is so confusing for customers that you should take responsibility over simplifying your tariff process, without legislation requiring you to do that, so that people can compare like with like. People are just not able to do that at the moment.

[353] **Mick Bates:** There is no need for a response to that, as it is a good comment. Thank you, Darren. I will, at this stage, draw this session to a close. I thank the energy companies for sending you along, as witnesses. I feel that we may be a little step further along the road to finding realistic and effective solutions to fuel poverty in Wales. From the answers given today, it seems that a lot of work is needed to demystify all the tariffs. The Chancellor has asked companies to spend £150 million, compared with the current £50 million, to try to resolve the issue of social tariffs. Clearly, an agenda is emerging, and that will be furthered by

Ofgem's research. I hope that there is some way through this data problem, because identifying those people who are in most need is an issue that concerns us all. It is on that point that there will be further communication between this committee, you and the Government.

[354] Calls were made for further information, and people volunteered to send that information. I will ensure that the transcript of this session is sent to you to look at as soon as possible. Thank you again for your evidence. On behalf of the committee, I want to say that I look forward to working with you to ensure that we meet important social targets to reduce fuel poverty. Thank you very much.

3.17 p.m.

Papur i'w Nodi—Papur EDF Energy ar Dlodi Tanwydd yng Nghymru
Paper to Note—Paper from EDF Energy on Fuel Poverty in Wales

[355] **Mick Bates:** This final item is to note the paper from EDF Energy, whose representative could not attend today, unfortunately. Are there any comments on the paper? I see that there are none. The paper is therefore noted. That brings the meeting to a close.

Daeth y cyfarfod i ben am 3.17 p.m.
The meeting ended at 3.17 p.m.