



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

Y Pwyllgor Amgylchedd a Chynaliadwyedd **The Environment and Sustainability Committee**

Dydd Mercher, 9 Gorffennaf 2014
Wednesday, 9 July 2014

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mick Antoniw	Llafur Labour
Russell George	Ceidwadwyr Cymreig Welsh Conservatives
Llyr Gruffydd	Plaid Cymru The Party of Wales
Julie James	Llafur Labour
Alun Ffred Jones	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Julie Morgan	Llafur Labour
William Powell	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

David Fletcher	Pennaeth y Polisi ECO, Ofgem Head of ECO Policy, Ofgem
Zoe McLeod	Uwch-reolwr, Defnyddwyr Bregus, Ofgem Senior Manager, Vulnerable Consumers, Ofgem
Holly Sims	Rheolwr Materion Corfforaethol, Calor Gas Cyf Corporate Affairs Manager, Calor Gas Ltd

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Catherine Hunt	Ail Glerc Second Clerk
Nia Seaton	Y Gwasanaeth Ymchwil Research Service
Adam Vaughan	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 09:49.
The meeting began at 09:49.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[1] **Alun Ffred Jones:** Hoffwn ddechrau'r pwyllgor a chroesawu ein tystion y bore yma. Hoffwn nodi rhai o'r rheolau. Os bydd larwm tân yn canu, dilynwch y swyddogion allan, os gwelwch yn dda. Diffoddwch eich ffonau symudol, os gwelwch yn dda. Mae Cynulliad Cenedlaethol Cymru yn gweithredu'n ddwyieithog, felly mae croeso i chi gyfrannu yn y Gymraeg neu'r Saesneg. Mae cyfieithiad ar gael ar sianel 1. Peidiwch â chyffwrdd â'r botymau ar y meicroffonau gan y byddant yn dod ymlaen yn awtomatig.

Alun Ffred Jones: I would like to start the meeting and welcome our witnesses this morning. I would like to note some of the rules. If there is a fire alarm, please follow the officials out. Please turn off your mobile phones. The National Assembly for Wales operates bilingually, therefore you are welcome to contribute in Welsh or English. The translation is available on channel 1. Do not touch the buttons on the microphones as they will come on automatically.

[2] A oes unrhyw Aelod eisiau datgan buddiant? Gwelaf nad oes. Rydym wedi cael ymddiheuriadau gan Gwyn Price ac Antoinette Sandbach.

Does any Member wish to declare an interest? I see that no-one does. We have received apologies from Gwyn Price and Antoinette Sandbach.

09:50

Ymchwiliad i Effeithlonrwydd Ynni a Thlodi Tanwydd yng Nghymru: Tystiolaeth gan Ofgem Inquiry into Energy Efficiency and Fuel Poverty in Wales: Evidence from Ofgem

[3] **Alun Ffred Jones:** Mae Ofgem yma'r bore yma. Rwy'n falch iawn i'ch croesawu. Rydym wedi derbyn peth tystiolaeth yr wythnos diwethaf ac y mae'r gwasanaeth ymchwil wedi paratoi papur briffio.

Alun Ffred Jones: Ofgem is here this morning. I am very pleased to welcome you. We received some evidence last week and the research service has prepared a briefing for us.

[4] Gofynnaf i chi gyflwyno eich hunain yn gyntaf ac wedyn symudwn ymlaen at gwestiynau'r Aelodau.

I ask you to introduce yourselves first and then we will move on to the Members' questions.

[5] **Mr Fletcher:** I will start off. I am David Fletcher, head of energy companies obligation policy at Ofgem, so I look after ECO specifically.

[6] **Ms McLeod:** I am Zoe McLeod and I lead on vulnerability at Ofgem, so I look after vulnerable customers.

[7] **Alun Ffred Jones:** Gofynnaf gwestiwn i ddechrau. A ydych yn credu y bydd ECO yn llwyddo i gyrraedd ei dargedau?

Alun Ffred Jones: I will ask a question to start. Do you think that ECO will succeed in reaching its targets?

[8] **Mr Fletcher:** If you look at the progress on the present targets that we submitted as part of our evidence, you will see that the suppliers are well on their way to achieving the targets that were set back at the start of ECO—all notably except for the rural sub-obligation under the carbon-saving community obligation. Additionally, the Department of Energy and

Climate Change is looking to change some of those obligations, reducing the carbon emissions reduction obligation, the carbon-saving obligation, which was specifically targeted at hard-to-treat external cavity walls or solid walls. So, it is looking to change that and we reckon that that will also mean that suppliers are more likely to achieve those obligations.

[9] **Alun Ffred Jones:** So, by reducing the targets, they will reach the targets.

[10] **Mr Fletcher:** We presented evidence that was around the 32% mark; we have since published a more up-to-date figure, which is 39% of the target. We reckon that the impact, as I think that we have included in our evidence, will make a subtle difference. If we have not included that, we will send that through to you.

[11] **Alun Ffred Jones:** Diolch yn fawr. **Alun Ffred Jones:** Thank you. I will now ask the Members to ask their questions. Julie Morgan is first.
Gofynnaf i'r Aelodau ofyn eu cwestiynau yn awr. Julie Morgan sydd gyntaf.

[12] **Julie Morgan:** I just wanted to ask about the geographical distribution. Obviously, there is more progress in Scotland and Wales than in England. Is that correct?

[13] **Mr Fletcher:** Yes.

[14] **Julie Morgan:** Could you explain why that is happening?

[15] **Mr Fletcher:** It is up to suppliers as to how they progress their obligations. There is no geographical split that is set down in the obligations themselves. There are a number of reasons for that. One is to do with the demographic within Scotland and Wales and another is to do with the engagement that Scotland and Wales have had with suppliers on these particular targets.

[16] **Julie Morgan:** So, are you saying that there is less engagement with suppliers in England?

[17] **Mr Fletcher:** I think that there is more engagement at a community level, or certainly that is what we have heard anecdotally, in Scotland and Wales.

[18] **Julie Morgan:** In terms of the list of local authorities in Wales, again, there is quite a wide distribution in each local authority. Do you have any comments on that?

[19] **Mr Fletcher:** I do not—

[20] **Julie Morgan:** In Rhondda Cynon Taf it is 42.1, and in Powys it is 4.8.

[21] **Mr Fletcher:** Sorry, but I do not think that I have that in front of me.

[22] **Julie Morgan:** Okay; it was a response from Ofgem.

[23] **Mr Fletcher:** Apologies for that. It is my pack, but I obviously have not brought that particular slide with me.

[24] **Alun Ffred Jones:** What it shows is that there is quite a high take-up or at least a high rate of completion in certain Welsh counties, and very broadly the Valleys councils are doing reasonably well, if that is how you would describe it. There is a very high percentage there per 1,000 households—42% for Rhondda Cynon Taf—but then if you read the figures for some of the rural counties, such as Ceredigion, Gwynedd, Anglesey and Powys, you will find that you are down below 10%. Is there a reason for that?

[25] **Mr Fletcher:** I could not comment on that. As I say, it is the suppliers that determine where they go within the country. I think that there is a certain amount to do with the rural sub-obligation, which is specifically designed to target those areas. However, they are looking at a very limited customer base—people who are also on benefits currently, for example.

[26] **Julie Morgan:** These are numbers, I think, rather than percentages; so, that probably gives a different view.

[27] **Alun Ffred Jones:** They are not percentages. You are quite right. They are numbers per 1,000 households.

[28] **Mick Antoniw:** May I raise a point specifically on this? One reason for the variation—the focus in some of the Valleys areas as opposed to rural areas—is the imbalance in terms of the way in which things like cavity wall insulation and so on are operating; that is, you have agents who go around and basically trawl through an area en masse, and therefore there is a higher profit motive to work in certain areas—you can do whole streets at a time and have a massive turnover. Do you think that that might be the reason why you have an imbalance in some areas?

[29] **Mr Fletcher:** I would say that that is—. The cost to deliver will be lower in the areas where you can complete a whole street or a whole area. So, that will be the natural trend, but we have no research that indicates why that is driven in that particular way.

[30] **Mick Antoniw:** I just want to follow on from that question. One of the issues, of course, that have arisen is that many areas have been absolutely trawled through to try to maximise this. That is potentially a good thing if people are getting cavity wall insulation, but how do you actually monitor the quality of what the end product is in terms of houses being done and how much better off they are? I can tell you that one of the real issues that has arisen, as the trawls happen, is that a whole series of houses are being done that actually do not benefit from it—the houses are not suitable for cavity wall insulation and so on. This has been an issue that has been highlighted all around. It is a big issue in my constituency. To what extent is there any sort of control or monitoring of the evaluation as to how well that is being done, and do you think that the model is right?

[31] **Mr Fletcher:** There are a number of safeguards in place. The first thing is that ECO is designed around specific standards—standards of insulation, standards of installation and the publicly available specification standards 2030 and 2031, which are the two standards that give a quality level. You will note that we have a number of measures that are outstanding that we have not approved yet. Those are ones that we are investigating further on hard-to-treat cavities where, through anecdotal evidence and also through monitoring that has been undertaken under ECO, it has been identified that some of those cavities may not have met the qualifications for the ECO benefit. So, they cannot contribute to the ECO. So, those ones are being investigated. We have had specific action plans for suppliers to go out to carry out further monitoring on those to ensure that they are eligible and have been filled correctly, or that external render has been done correctly. If they have not, we will not be giving the credit to the suppliers for those.

[32] **Mick Antoniw:** It is after the horse has bolted in that there are large areas already—. So, will you actually be doing a report that evaluates this and which will then be publicly saying what the extent of the issue is?

[33] **Mr Fletcher:** We are publishing some of our hard-to-treat monitoring that has gone on. So, we are looking at the failure rates that we have seen in the market. We can pass a copy of that to you so that you have that to hand.

[34] **Alun Ffred Jones:** Yes, please.

[35] **Mr Fletcher:** However, that has been published alongside the previous regular reporting that we have done.

[36] **Alun Ffred Jones:** Diolch yn fawr. **Alun Ffred Jones:** Thank you very much. Llyr sydd nesaf. **Alun Ffred Jones:** Llyr is next.

[37] **Llyr Gruffydd:** I am just wondering whether you had a view on the definition of rural areas under ECO, because we have had evidence from Calor that it is concerned that, in terms of the definition of rural as having a population of 10,000 or below, the figure of 10,000 is too high, in effect, because it means that suppliers will concentrate on the urban fringe, and that large parts of rural Wales will go untouched.

[38] **Mr Fletcher:** From our point of view, in terms of ECO the definition is set in legislation. It is very clear in legislation. So, there is very little that we can do to promote it outside of that. There is also the ability to work in adjoining areas to those rural areas, so, yes, you will have a situation where you will have a rural area and you will have a fringe, but there is a limit in terms of the number of properties that can be done within the fringe around that rural area.

10:00

[39] **Llyr Gruffydd:** Do you believe that we, as a committee, should make representations in terms of that level then—the 10,000 figure?

[40] **Mr Fletcher:** Yes, I think so.

[41] **Llyr Gruffydd:** Thank you. You also mentioned in your evidence that, should the suppliers fail to meet 100% of their obligations, you would consider taking some sort of enforcement action. Could you elaborate on what type of action you have in mind?

[42] **Mr Fletcher:** We have powers to fine up to 10% of turnover for suppliers, so we would look to engage our enforcement powers, but before we get to that stage, we obviously want to try to make sure that people meet their obligations, so we are looking particularly at things like the rural sub-obligation, which is so much lower than the rest of the obligations that have been achieved so far. We are talking directly with the suppliers to look at what their action plans are to meet the targets. Obviously, these targets are looking at 2015, so, although the Government is looking at moving ECO out to 2017, we are looking very much at the current legislation, which is the 2015 cut-off and people's achievement of that. That is what we will be monitoring and enforcing against if they do not meet their targets.

[43] **Alun Ffred Jones:** I call Joyce Watson.

[44] **Joyce Watson:** I want to move on a bit to the retail market review. We talk about the big six, but actually, in Wales, you can forget that—it is actually the big two. So, I would like some comments on that, but I would also like your opinion on pre-payment meters. British Gas has launched its smart meter and that is all very well and good because it helps people to self-monitor. In other words, they can switch everything off and freeze to death and that is fine. So, I really want to know your opinion on self-monitoring, because that is what it is: telling people, 'You can afford to put it on now'.

[45] You talk about the cost of £60 sometimes to just change your meter to a better tariff. I will be quite specific here in my questioning. Is it a good idea to give somebody who is

already struggling a smart meter to self-regulate, rather than offer them some benefit to reducing the cost of their fuel bill, simply because they are in poverty?

[46] **Ms McLeod:** You have touched on a few questions there. One is about the nature of self-disconnection, the other is about the barriers to switching and the third is about the potential for smart meters and the impact on pre-payment meter customers. Perhaps I could take the questions in turn. The number of disconnections overall is now very low, but, actually, the number of pre-payment meters going in is increasing, and I think that it is fair to say that there is a concern that, as a result, there is hidden disconnection going on. It is something that we are very aware of. Citizens Advice is about to launch a new report looking at the extent of this problem and we will be working with it and suppliers to look at better ways in which we can monitor self-disconnection in the current world and, in particular, target help and support for customers in need. It is not a straightforward process with the current meters, because, for example, it is quite hard to tell whether someone is self-disconnecting, for example if it is a student property, which might be empty over certain months of the year, or if it is a holiday let. However, there is still much more that can be done and we are very much focused on that.

[47] With the introduction of smart metering, one of the benefits is that the increased access to data should mean that we are better able to identify and see who is underheating their homes and target help and support at those customers. It is something that is more difficult to do in the current world. Smart metering offers a huge amount of potential to customers, for example you can have a choice of top-up methods—you can top up by text, over the phone, or online, and the vast majority of self-disconnection at the moment is actually disconnection caused in error, because of the inconvenience of having to go down to the shop and top up, or being unable to leave the home because the children are at home. We also hope that the introduction of smart metering—we will play our role in this—will have a downward pressure on cost, because you will no longer have to have a separate meter or a completely separate infrastructure in the same way, so the cost should come down.

[48] There is also the potential for non-disconnection periods for gas as well as electricity. At the moment, it is only technically possible to offer non-disconnection periods for electricity, so that is good news. As part of our smarter markets work, we are also looking at the potential to use a new technology called load limiting to provide a lifeline of electricity to customers as a complete alternative to disconnection. So, there is a huge amount of potential there; it is much better than the current system.

[49] On the issue of changing tariff, there are barriers to PPM customers switching, because you have to have the meter replaced if you want to change payment method. We know that some suppliers, although not all, will charge you a security deposit if you switch from pre-payment to direct debit, and that can act as a barrier to customers switching. So, that is an issue that we are looking at. Also, some suppliers will charge you to have your meter replaced—between £45 and £70. As part of our work this year, we are going to be looking at those charges and reviewing them.

[50] On the switching rates for pre-payment, pre-payment meter customers tend to switch more than standard credit customers, but not as much as direct debit customers. In the last couple of years, we have seen one fuel switching increasing, and another fuel switching declining, and we are investigating as to why that is. However, one thing that we do know is that among customers in debt on a PPM, switching levels are very low, and it is for that reason that we are looking into extending what is called the debt assignment protocol. The debt assignment protocol allows customers with a debt of up to £500 still to switch supplier. In practice, we have found that not enough consumers are using that process, so we are looking at how we can promote that and make customers aware of their rights. That is something that we will be doing later in the year.

[51] **Joyce Watson:** May I ask another question, Chair? You said that smart meters are cost-effective. Of course they are; they do not need meter readers, so that gets you out of the need to pay a whole raft of staff. What evidence have you got, and how will you track it, that the smart meter will end up leading to reduced costs to the consumer? That is what we are trying to look at here.

[52] **Ms McLeod:** The smart meter programme is a Government programme. Our role is in regulating to ensure that customers are protected and, as far as we can within our remit, we ensure that they access the benefits. Certainly, we will be monitoring the rate at which smart meters are installed and who is getting them, for example, to make sure that pre-payment meter customers can get the benefits of smart metering. However, ultimately, this is a Government programme that is being delivered by suppliers.

[53] **Alun Ffred Jones:** Galwaf ar **Alun Ffred Jones:** I call William Powell.
William Powell.

[54] **William Powell:** Diolch, Gadeirydd. My question is for Ms McLeod and it relates to the strategies that Ofgem has to communicate effectively with vulnerable clients and consumers to promote the various programmes that are available under ECO. I am thinking particularly of people with early-onset dementia, with learning difficulties or those who are just easily confused. What methods do you adopt to improve the take-up rate there?

[55] **Ms McLeod:** It depends, really, on the scheme. We are having a debate internally, at the moment, as to how public facing we should be as an organisation. You will be aware that in the consumer landscape you have got organisations like Citizens Advice that, arguably, are much better placed than we are to communicate with customers. We work in partnership with organisations like Citizens Advice. So, for example, there is the Energy Best Deal, and we work with DECC on the energy savings network, and both are about providing face-to-face help to customers to help them with switching, debt advice, financial management, uptake of benefits entitlements and a range of other areas. We learn about customer experiences in a number of ways. We look at calls to front-line advice agencies like Citizens Advice consumer service and the extra help unit that it runs. We carry out ad hoc research to understand customers' experiences, both qualitative and quantitative. We have done something recently, for example, on dynamic teleswitching. We have a close relationship with organisations like Money Advice Trust.

[56] In terms of communicating, we think that those organisations are better placed. For example, we are working with Money Advice Trust on the development of a debt rights guide at the moment. We can provide the expertise about what your rights are, and we work together to ensure that that is factually accurate, but it is much better placed to communicate that information to customers, because it has the contact with them, day to day.

[57] **William Powell:** Clearly, you will be adhering to the requirements of Welsh language legislation, but what level of commitment do you have to addressing ethnic minority communities in their own languages as well, so that they have a full range of information available to them?

[58] **Ms McLeod:** Suppliers and networks have to meet appropriate legislation in this area. Something that we are doing, which is linked, is that we are currently consulting on something called the priority services register, which is about ensuring that suppliers and networks provide services to customers who have additional needs, and they include additional needs such as being mobile only, speaking a different language and being visually impaired or having hearing problems. There is a range of measures that is proposed as part of the consultation, and those measures are focused on communication and ensuring safety.

[59] **William Powell:** That is helpful. Finally, a question that relates to the retail market review. What measures do you undertake to encourage the engagement of energy companies with the whole collective switching agenda?

[60] **Ms McLeod:** On collective switching, we have taken a range of actions, but there are two main things. There is a clear incentive in the retail market review reforms for suppliers to get involved in collective switching. They have a cap of four tariffs per fuel per meter, but they get an exemption if they are involved in a collective switching scheme, assuming, that is, that the scheme is accredited and it meets certain criteria.

[61] The other thing that we are doing is that we have recently consulted on extending the confidence code to collective switching. The idea is that if customers go on to a switching site and they see the confidence code logo, they can have peace of mind that the advice that they are getting is of a high quality and they can trust it. That is really important for people's understanding that they are entering into a contract with a bona fide provider.

[62] **Russell George:** Good morning. With regard to the regulation of energy companies, I wonder if you could speak to how you regulate or, perhaps, what considerations you have with regard to how their call centres operate with regard to the training of staff, and how they operate and how they deal with customers.

[63] **Mr Fletcher:** You will know that, recently, we actually fined Npower on the basis of not improving its customer offer, particularly through things like call centres as well. So, we look at the way in which they are engaging with consumers and what level of advice is given and whether that advice is misleading or not. That is one of the triggers that we often use when we are looking at whether there is an enforcement case to pursue. We had two cases recently where that was the core of the enforcement case that we have taken.

[64] **Russell George:** Is there particularly good practice somewhere? Without naming anybody—perhaps you would want to name, or not. Whether you name a company or not, is there a particular example of good practice?

[65] **Mr Fletcher:** I do not think that we would be able to give a forerunner on it—

[66] **Russell George:** No, I am not suggesting that you name the company, but—

[67] **Mr Fletcher:** It is just making sure that everything that it provides is accurate and clear and that it gives the consumer the right channels to the right areas that they are actually looking for.

[68] **Ms McLeod:** On the vulnerability side, suppliers have a range of approaches, and there are different approaches depending on the situation. For example, for smart metering, we have something in place called the smart metering installation code of practice, and that requires installers to be trained to recognise vulnerability and to respond to it in an appropriate way. The standards for that are set by something called the National Skills Academy for Power, and we would work with suppliers to ensure the quality of that training.

[69] **Russell George:** I know that when I have to call my provider, one thing that I experience, as a lot of us do, is long queues and not getting through to somebody, and then being put through from one department to another and sometimes being left in a loop. That can be frustrating. When I do it, I take names and numbers, but not everyone operates in that way, and the more vulnerable people are just going to be left without any answers.

[70] **Ms McLeod:** You are right. You have a high number of customers in Wales who are

mobile only—it is much higher than the GB average—and it is really important that those consumers can get access to information and the support that they need, and that they are not left waiting on the line, being charged a fortune because they are calling from a mobile phone. Ofcom, as you will be aware, has introduced new legislation in the area of mobile phone costs, or rather the costs of calling from a mobile phone, and we will be looking to see how suppliers respond to that.

10:15

[71] **Russell George:** Is there any distinction with regard to levels of service depending on where the call centre is based and whether it is based locally in Wales, the UK or beyond the UK?

[72] **Ms McLeod:** I have no idea. I am sure that the Welsh call centres are the best, though. *[Laughter.]*

[73] **Russell George:** That is a good answer.

[74] **Alun Ffred Jones:** It is a good answer, but not necessarily true. *[Laughter.]*

[75] Llyr, a wyt ti am ofyn cwestiwn? Llyr, did you want to ask a question?

[76] **Llyr Gruffydd:** I wanted to ask about your referral of the energy sector to the Competition and Markets Authority, which is very welcome, I am sure. I just want you to explain to me how you expect that review to take into account the different ways in which the market operates in Wales. Obviously, in Wales, we effectively have a big two, and any changes introduced might have more far-reaching implications for us here than maybe across the UK generally.

[77] **Mr Fletcher:** The key thing is that now that the referral is with the CMA, it is its investigation and it will be looking at it. So, the focus of the matter will be for it to do rather than us. However, what we have said, and what we would say, is that it is looking for representations from stakeholders that represent the problems that people have found. So, for example, there is the fact that there are the big two in Wales rather than the big six. The encouragement would be to make representations to the CMA on those issues.

[78] **Llyr Gruffydd:** Were you able to express some sort of expectation or suggest that to it as part of your referral, or is that a separate representation that you could make?

[79] **Mr Fletcher:** It would be a separate representation. We referred the market as whole. So, it is the whole of GB. With the particular focus that this committee has and the particular issues around the market in Wales, it would be really good to have representations from you.

[80] **Llyr Gruffydd:** There is a concern, or a danger, maybe—and I would ask you whether you recognise that it is a danger—that this review could end up being a bureaucratic exercise that may well have, as one would hope, some form of implications for the energy sector, but the outcome might not necessarily lead to substantial change and the alleviation of fuel poverty and it might not address some of the issues that customers are facing on a daily basis. Do you recognise that as a potential danger here?

[81] **Mr Fletcher:** I can see that that is a potential danger, but the referral does not stop Ofgem from still having the same responsibilities to vulnerable consumers. It is evident that it is something that we are focusing on as one of our core areas of focus for the coming year. So, I do not think that the two should be seen as two distinct things. We will still be working towards ensuring that our duties are met, from the point of view of protecting consumers, both

now and in the future, and also vulnerable consumers.

[82] **Llyr Gruffydd:** If you did not feel that the outcome of the review addressed properly some of those issues, do you feel that there is a possibility that you might look at it again and do something further?

[83] **Mr Fletcher:** I am not sure that I would be able to comment on that. We would have to wait to see what the outcome of the review would be before we would take further action. I am sure that it would depend on the authority's decision at the end of that time.

[84] **Alun Ffred Jones:** Do you recognise the relative failure of the ECO programme in rural areas?

[85] **Mr Fletcher:** We recognise that suppliers have not met their targets yet. That is the key thing.

[86] **Alun Ffred Jones:** The figures are pretty awful, are they not?

[87] **Mr Fletcher:** They are very disappointing from the point of view of the percentages that we would have expected people to have got to, yes. There are two things, the first is—

[88] **Alun Ffred Jones:** What are you going to do about that?

[89] **Mr Fletcher:** As I have said, we are monitoring it. We have set up regular meetings with suppliers, and we have asked for their action plans specifically in this area. Secondly, we are working with the Government to look at the changes that it is looking to introduce to expand it. At the moment, there is a clear targeting towards people who are on benefits in rural areas, whereas there has been a feeling that some of those things are targeted towards people living in rural areas—so, more than just people on benefits in rural areas. The Government is looking to move the target towards that side of things as well.

[90] **Alun Ffred Jones:** There was a housing condition survey 10 years ago in Wales, which showed that the worst housing conditions were in rural north-west Wales and south-west Wales. Much of that had to do with solid walls and a lack of natural gas in terms of central heating. Looking at the measures delivered by ECO, two of the big-ticket items are cavity wall insulation and boiler replacement. I think that I am right in saying that ECO will not deliver a new, efficient boiler unless you have natural gas. Am I right?

[91] **Mr Fletcher:** The measure is specifically around central heating boilers, so it is possible. You can actually—

[92] **Alun Ffred Jones:** So, you recognise that the two major measures are simply not being delivered in the areas where they are needed, because they cannot be.

[93] **Mr Fletcher:** Well, on the solid wall side of things, those things were specifically—. The carbon emissions reduction obligation target was looking at those solid walls and also at hard-to-treat cavity walls. On the reduction to CERO, there is a set obligation that is looking at solid wall insulation on its own, so the idea is to safeguard the fact that there still will be solid walls be going forward. On the boiler side of things, because the measure is cost-saving to the consumer, you can measure that, and, if it is economically right, you can look at boiler replacement where it is not natural gas or mains gas. Additionally, the Government is looking at what it can do to increase delivery to off-gas consumers. It consulted earlier in the year, and it is in the process of putting together a consultation response to change the legislation to encourage people to look at off-gas as well.

[94] **Alun Ffred Jones:** So, when we can expect that?

[95] **Mr Fletcher:** I believe it is during the summer this year that the response will be out. The legislation should be following towards the end of the year.

[96] **Alun Ffred Jones:** Diolch yn fawr iawn. Are there any other questions? There are not. Thank you very much for coming in. You will be provided with a transcript for you to check for accuracy. Diolch yn fawr iawn. Thank you very much for assisting us.

10:22

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

[97] **Alun Ffred Jones:** Cynigiaf fod **Alun Ffred Jones:** I move that

y pwyllgor yn penderfynu gwahardd y cyhoedd o eitem 4 yn unol â Rheol Sefydlog 17.42(vi). *the committee resolves to exclude the public from item 4 in accordance with Standing Order 17.42(vi).*

[98] **Gwelaf fod y pwyllgor yn gytûn.** **I see that the committee is in agreement.**

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10:22.
The public part of the meeting ended at 10:22.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 11:50.
The committee reconvened in public at 11:50.*

**Ymchwiliad i Effeithlonrwydd Ynni a Thlodi Tanwydd yng Nghymru:
Tystiolaeth gan Calor Gas
Inquiry into Energy Efficiency and Fuel Poverty in Wales: Evidence from Calor
Gas**

[99] **Alun Ffred Jones:** [*Inaudible.*]—session. We welcome Holly Sims from Calor Gas. Welcome to the committee.

[100] **Ms Sims:** Thank you.

[101] **Alun Ffred Jones:** As you know, we are collecting information and evidence on fuel poverty in Wales. We hope that you will be able to assist us and provide us with information and your views. Do you want to introduce yourself and explain who you are?

[102] **Ms Sims:** Yes, of course. I am Holly Sims. I am the corporate affairs manager for Calor Gas. We operate across England, Scotland and Wales, mainly in rural communities that do not have access to the mains gas network, providing liquefied petroleum gas to those homes and businesses.

[103] **Alun Ffred Jones:** There you are. Diolch yn fawr iawn. Thank you. We will get straight into business, then. William Powell is going to open the questions.

[104] **William Powell:** Diolch, Gadeirydd. Good morning, Holly. I wonder whether you could comment on your perspective on the achievability or otherwise of the Welsh Government's 2018 fuel poverty target.

[105] **Ms Sims:** I think that the target is laudable. As we are seeing across England, Scotland and Wales, achieving the targets, I think, is going to be challenging. We believe that, with the current funding constraints that we are experiencing—although the Welsh Government has dedicated funding to national fuel poverty programmes, which is to be welcomed and is certainly in contrast to the Westminster Government—achieving the total eradication of fuel poverty by 2018 in vulnerable households, as you intend, is going to be a challenge, especially looking at where the price of energy is going as well.

[106] **William Powell:** Yes. A particular area of concern in Wales has been around the delivery of Nest, especially in deeply rural areas. What recommendations does Calor Gas have for how to improve that and the prospects for getting into those areas that are so difficult to reach and assist?

[107] **Ms Sims:** I think that, first, I would like to say that there are a great many benefits to Nest, and I think it is actually a very good scheme. It is built on some of the issues that were seen with previous schemes like CERT, the carbon emissions reduction target, and CES, community energy solutions. I think that we welcome the fact that it does have a focus on rural and off-grid households. There are also other elements that I think are very good: increased funding for off-gas properties as opposed to on-gas. I think that there are specific managers to develop relationships in rural areas, and I know that the scheme in its first year targeted the areas that previously had perhaps missed out on other forms of funding. So, I would like to say that I think that there are a great many benefits to Nest and I think that the Westminster Government could take some lessons from Nest, to be honest.

[108] However, I think that we have concerns regarding the delivery in rural areas. In the first year, only 21% went into rural areas and in the second year I think it was up to—the figure escapes me although I have it here in my notes, but I think it increased by another 17%. So, clearly, looking at the depth and incidence of fuel poverty in rural areas, in Wales, rural areas are twice as likely as urban areas to be in fuel poverty. I think it is 42% compared with 21%. So, I think that there is a problem in that mismatch in where the delivery is going. I think that it is understandable. As we have seen with all the previous schemes, the suppliers tend to go with achieving greater densities, which can be achieved at a lower cost in urban areas. That is just the nature of the scheme. However, like you say, that does not solve the problem for rural areas.

[109] What I think would be a good approach would be working with the rural community councils through groups such as One Voice Wales to identify where the fuel poverty exists in rural areas. The work that Calor has been doing with National Energy Action Cymru has identified that rural fuel poverty often looks very different from urban fuel poverty and is also much more difficult to identify. Households are much less willing to self-identify, and I know that a key tenet of the Nest scheme is people putting themselves forward, which very often does not happen in rural communities—

[110] **William Powell:** There are cultural issues.

[111] **Ms Sims:** Absolutely. I think that communications in rural communities are obviously more difficult when you have very dispersed settlements or very small numbers of people. So, finding local agents who are familiar with the residents, familiar with the properties, familiar with the communities, and who also have the trust of the communities, is a vital element. So, I think that working along those sorts of groups will be key. I think Nest

already does that to a degree, but it could perhaps be slightly more focused. I think that that is the best way to reach those people.

[112] **William Powell:** Do you feel that specific targets for deep rural areas will actually help in terms of the way that Nest is structured?

[113] **Ms Sims:** Absolutely. In our submission, you will see that we have issues with off-gas versus rural. I took pains to point out that off-gas is not always rural and rural is not always off-gas. I think that when you just lump something under a 'rural' or an 'off-gas' banner, you can appear to be hitting your targets, but you could actually hit all of your hard-to-treat in an urban area, or you could hit all of your rural in an area that has access to the mains gas grid. So, I think that defining the issue very, very carefully and then setting very specific sub-targets within the overall target would be very useful. Under ECO, there is a sub-target of 15% under the carbon-saving community obligation for rural communities. Now, again, I have some issues with the definition of that, but at least the sub-target exists. So, yes, I think that that would be very helpful.

[114] **William Powell:** Great. Thank you very much.

[115] **Alun Ffred Jones:** Julie Morgan is next.

[116] **Julie Morgan:** Talking about rural communities, obviously, this is not only about rural communities, but do you have any comments about services for Gypsy and Traveller communities?

[117] **Ms Sims:** Gosh, certainly not that we included in our submission. In terms of Calor's experience with the Gypsy and Traveller communities, obviously a lot of them are reliant on LPG cylinders. We have had some concerns for a long time about people who live in mobile home parks—so maybe that would encompass some of those communities—where they have not been able to access some of the funding streams because of the nature of the dwelling that they live in or because they do not have an electricity meter point and so on. Those are some issues that are broadly our concern. I know that that is being addressed under ECO now, so I think that park home residents are able to access the ECO funding. In terms of specific support for Gypsy and Traveller communities, as I said, it is not something I know much about, but I am not aware of any designated support for those communities.

[118] **Julie Morgan:** They are in fuel poverty—quite extreme fuel poverty—so I wondered whether you had looked at that situation at all.

[119] **Ms Sims:** Not personally, no. It is not something that I am familiar with.

[120] **Julie Morgan:** Calor has not either, as far as you know.

[121] **Ms Sims:** No.

[122] **Alun Ffred Jones:** Joyce Watson is next.

[123] **Joyce Watson:** The whole idea of getting people out of fuel poverty is that the improvements that we make to those properties mean that they have more money in their pockets. So, as a company, may I ask what Calor is doing to help us on that journey by protecting your customers from the rise in your fuel prices?

[124] **Ms Sims:** As a business, we take our responsibility very seriously. We have been working with National Energy Action Cymru since 2010 on a dedicated off-gas-grid fuel poverty programme, and it was at the time, and I think still is, the only dedicated off-gas-grid

fuel poverty alleviation programme. So, we are working very closely with it to identify rural fuel poverty in 100% off-mains-gas communities, and to work with it to raise awareness of the different solutions, to signpost through to Nest and Arbed, and to train up advice workers in those communities to identify fuel poverty and then help people with the solutions.

[125] In terms of specific Calor pricing, we fix our domestic bulk price every winter from 1 December through to the 31 March so that our customers during that period know exactly what price they will be paying, protecting them from the volatility that we often see in the winter period, particularly in markets like the heating oil market. So, we have done that for that last three years and we did it again this year. So, we are doing what we can to protect our customers from the volatility of the market. As a supplier, we are the largest LPG supplier in Britain, and we also have the largest storage facilities. So, that enables us to buy gas ahead, usually in the summer when prices are low, and then we can fix our price throughout the winter because we know what we are paying for our gas during that period. Obviously, it is dependent on the global oil market; LPG is an oil derivative and that market has proven itself to be particularly volatile over the last few years and has not followed the annual patterns of pricing that would have perhaps expected to see. However, I think that we are doing a great deal to try to protect customers from price volatility.

[126] **Joyce Watson:** So, do you help and advise customers? I know that you have identified the houses that are cold, and that is great work, but I am trying to get at you as a company and your charging. I know about your fixed prices. There must be a date at which you are fixing them upwards, or have you ever actually reduced them?

12:00

[127] **Ms Sims:** We do reduce prices as well as increase. We implemented a price decrease—. I will need to have a look back at the data, but I can certainly provide the committee with more information around where we have decreased our prices.

[128] **Joyce Watson:** I just ask this because we have had Ofgem in this morning. You are quite right to say that you are the major supplier, so you have somewhat captured the market. I am trying to look at competition and regulation and how that is working. I am not suggesting that it is not working; I am trying to give you an opportunity to express to us that you feel confident that it is working even though you have most of the market.

[129] **Ms Sims:** Okay. I do not think that we have most of the market by any stretch. I would certainly disagree with that comment.

[130] **Joyce Watson:** Okay.

[131] **Ms Sims:** We are the largest supplier, but we certainly do not have most of the market. Following the winter of 2010, Charles Hendry, who was the Minister for energy at the time, instigated an inquiry into the entire off-grid heating market because there had been quite some price volatility during that very cold winter. The findings of that inquiry are on public record. I can certainly dig out a copy of the findings and send that to the committee. In brief, and without the report in front of me, that found that the LPG market was open, transparent and competitive. It found a minimum number of suppliers—I think four—in every region. It certainly recommended that there were no competition issues within the LPG market.

[132] **Joyce Watson:** Okay. That is good.

[133] **Llyr Gruffydd:** Just to pick up on that point, as an off-grid customer myself, when you shop around—and many of my neighbours will shop around for oil and gas—you find

that the prices quoted vary drastically very often. What would you do to perhaps try to reduce that variation? It seems to me—and I have examples—that people are being quoted prices that vary by thousands of pounds in some cases.

[134] **Ms Sims:** Gosh. Okay.

[135] **Llyr Gruffydd:** What would you like to see in terms of trying to harmonise that a little bit?

[136] **Ms Sims:** Are you talking about the LPG market specifically or the heating oil market?

[137] **Llyr Gruffydd:** The heating oil market predominantly, but there are examples in LPG as well.

[138] **Ms Sims:** Okay. I do not really feel qualified to comment on the heating oil market, because we are an LPG supplier only, so I think that I would be outside of my comfort zone talking about that.

[139] **Llyr Gruffydd:** Okay. Let us talk about LPG.

[140] **Ms Sims:** In terms of LPG pricing, UKLPG, which is our industry trade body, has on its website a list of suppliers. You can do a postcode search, and it will give you the website and the phone number for every supplier that is a UKLPG member. When you phone up—well, certainly in Calor depots—you are quoted a price over the phone and that price will then be confirmed in a letter. In terms of price increases and decreases, there are rules around how much we can put our prices up. We have a break clause in our contracts, which is triggered if the price goes up over a certain amount in a certain period of time at which point the customer is then free to leave us, break their contract, and go to a new supplier. So, I think that there is a good degree of transparency. I guess that the onus, as always, is on the customer to shop around and to look for the best deal, but, certainly, you can call up any supplier and they will give you a price that is quoted over the phone.

[141] **Alun Ffred Jones:** Russell is next.

[142] **Russell George:** In terms of advising customers, how does your call centre operate? Does it operate within Wales, within the UK, or wider? What kind of training do the staff have? Are you confident that the staff are giving correct information and are trained to a high standard?

[143] **Ms Sims:** The way that Calor operates is that we have eight major distribution depots, which are located throughout Britain, from Grangemouth up in Scotland down to Plymouth in the south-west of England. The south, west and central Wales area is served by our depot in Neath, and the north of Wales is served by our depot in Elland, across the border in England. All of our domestic sales people are trained by the Energy Saving Trust; they are Energy Saving Trust endorsed, which is an official endorsement by the EST. So, they undergo rigorous training for that and then mystery shopping on an ongoing basis to make sure that the advice that they are giving is up to date and impartial. That is for whole-house energy efficiency. So, it is not just on an LPG heating system. Our call centre agents are also trained—not all of them, but the team leaders are all trained, and also the people in our telemarketing centre in our head office are trained. A number of other staff around the business are also trained by the EST.

[144] **Russell George:** They are trained by the Energy Saving Trust.

[145] **Ms Sims:** Yes. With the EST-endorsed banner or badge, if you like, to ensure that the advice we are giving is impartial, approved and accredited by the EST. Obviously, the EST has a very strong brand to protect, so the mystery shopping element of that is very strict, I suppose.

[146] **Russell George:** I am just thinking of your call centres now and staff being aware of rural issues in particular as well. Are the call centres based in this country?

[147] **Ms Sims:** Oh, yes, absolutely. Also, everyone in south-west and mid Wales will call into our depot in Neath and everyone in the north will go to Elland, so it is very local. I think that, some years ago, we had a centralised call centre that was based in Slough. I think that 10 or so years ago, before I joined Calor, certainly, we went to this regional approach because we want our customers to phone someone who is relatively local to them and who understands the local area and knows the delivery area and the local situation, and we think that that is a much better system to have, where people phone someone locally who can be their ongoing contact to manage their account.

[148] **Russell George:** That is good to hear. Thank you.

[149] **Alun Ffred Jones:** Do you advise all your customers about fuel efficiency?

[150] **Ms Sims:** Yes, if the need arises. Sometimes, customers just want to ring up, know when the next delivery is coming and put the phone down. Some of our customers we do not speak to at all because they have a telemetry system where their gas order is just automatically scheduled and delivered. So, it depends on the level of contact the customer wants. If someone phones up and asks for advice, we are able to provide that. We also have a home energy check on our website, which, again, is provided by the Energy Saving Trust. Customers can be directed to that and they can fill in as much or as little information as they want about their home, their lifestyle, their energy bills, their heating system and their insulation and it will recommend measures they could take to improve the efficiency of their homes. So, we offer that service online. On all of our bills and letters, if our customers are experiencing payment difficulties, we direct them to the appropriate body that can help them, whether that is Citizens Advice, the Energy Savings Trust or whoever that might be.

[151] **Alun Ffred Jones:** Okay. Julie James is next.

[152] **Julie James:** Forgive me, I do not know anything about the LPG market. Most of my constituents who are off-grid use fuel oil. I just wonder whether there is any benefit in bulk purchasing. If there is, do you encourage villages or groups of people to enter into that sort of arrangement, and how does that work?

[153] **Ms Sims:** I think it is something we are seeing increasingly in the heating oil market. I know that it is promoted by people who set up franchises and so on. It works less well in the LPG market, and the reason for that is the density of customers and the way that the LPG market is structured. So, if you are a heating oil customer—. Over half of the rural market is heating oil; well over a million homes use heating oil and LPG is actually only 7% of the off-grid market. There are around 2 million off-grid homes in rural areas and the LPG—not Calor—market as a whole is about 7%, so it is very small. So, the vast majority use heating oil. With a heating oil tank, any supplier can come along and fill your tank. So, that makes it a very good market for collective purchasing to take place. With the LPG market, because the LPG company owns the tank and because of all of the health and safety legislation that goes along with it—so we own the tank and we are the only people who are allowed to fill the tank—you cannot shop around between suppliers because of the legislation. As a result of that, it is very rare to find a density of customers in a village—when you take into account that it is 7% of the market and we are a small proportion of that—to make bulk purchasing

effective and cost-effective; it is very, very unusual. Where it does exist—. I do know of LPG collective purchasing schemes. I know of a couple in England. I do not know of any in Wales. However, it is the nature of the market—the size and the way that the market is dispersed.

[154] **Julie James:** Okay. Thank you.

[155] **Alun Ffred Jones:** Are there any further questions?

[156] **Joyce Watson:** Yes. Just on the schemes and the upgrading of boilers—I have lost the details of which scheme it was—do you have any comments? I know that I read here somewhere about the fact that LPG boilers were not included in the scheme that was being offered to the customer.

[157] **Ms Sims:** Yes. That is something about which we have great concern, which is actually shared with the heating oil industry, and we are kind of working together on this. The Green Deal home improvement fund, which I think was launched—*[Interruption.]* Yes, there are so many schemes. I think it was launched the back end of May, and heating oil and LPG boilers are specifically excluded from that scheme. If you live in a mains gas area, you can get up to £1,000 to install two energy-efficiency measures, one of which might be a new condensing boiler. If you live in an off-mains-gas area, you cannot get funding for a heating oil or LPG boiler. We think that that is wrong. We have made various representations to the Westminster Government regarding this, to the Department of Energy and Climate Change. At the moment, it has no plans to include those boilers in that scheme. I know that it is different, obviously, because there is a different degree of devolved powers, but certainly Scotland has its own version of that scheme, the name of which escapes me for now. However, Scotland has included heating oil and LPG boilers in that scheme. I do not know whether there is scope within the devolved powers of the Assembly to instigate a similar scheme or whether you must deliver the Green Deal home improvement fund as per Westminster dictates; I am not sure. However, we would certainly argue that that is a huge missed opportunity. There are around 80,000 boiler replacements in the off-grid rural market per year, where boilers are old, faulty and broken down. We also know that heating oil boilers in particular last a very long time, but they can be running at an incredibly low efficiency, so to deliberately exclude heating oil and LPG boilers from that scheme, we think, is a huge missed opportunity.

[158] I will quickly mention, if I may, that the affordable warmth element of ECO, which is obviously a separate scheme, does include heating oil and LPG boilers, but we know that the people delivering ECO to date have not delivered any heating oil and LPG boilers under that scheme, because they say that it is not cost effective per tonne of carbon removed and, obviously, the whole scheme is based around delivering at the lowest cost—and rightly so because it is funded through a levy on all of our bills. However, again, customers with heating oil and LPG boilers are missing out through ECO and are now missing out through the Green Deal home improvement fund, so I think that that is a very big missed opportunity.

[159] **Joyce Watson:** Thank you.

[160] **Alun Ffred Jones:** Okay, are there any other questions? There are not. Thank you for coming in and for providing us with your evidence and for answering questions so openly. Obviously, we will provide you with a transcript of the evidence so that you can check it for accuracy. Thank you once again for helping us with this inquiry. Diolch yn fawr iawn—thank you.

[161] **Ms Sims:** Thank you for the invitation.

12:12

Papurau i'w Nodi
Papers to Note

[162] **Alun Ffred Jones:** Finally, there are papers to note. We have just got the minutes. They are noted. That is it. The next meeting will be next week, on Thursday.

Daeth y cyfarfod i ben am 12:13.
The meeting ended at 12:13.