

Sustainability Committee

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Paper from RWE npower on fuel poverty in Wales

Introduction

RWE npower welcomes the opportunity to submit evidence to the Sustainability Committee regarding the measures we have in place to assist vulnerable and fuel poor households.

We also note the Committee's concerns regarding rising energy prices and have included an appendix of additional evidence which we feel may be useful to the Committee in understanding the background to recent price increases.

Background

RWE npower, part of the RWE Group, is one of the UK's largest energy suppliers. We supply over 100,000 domestic electricity and gas customers in Wales, which represents approximately 7% of our domestic energy supply business

We have a long history of investment in Wales to enable the development and operation of generation capacity including Aberthaw power station, two combined heat and power plants and a diverse portfolio of renewable energy schemes; both on and offshore wind, and hydro generation. In total this plant generates around a third of the electricity consumed in Wales and creates local employment opportunities. Aberthaw power station alone contributes over £50 million to the Welsh economy each year.

Over the next ten years from 2008 RWE plans to incur considerable capital expenditure, on low-carbon generation plant in the UK to replace and upgrade its existing plant, equivalent to more than we will earn. The generation programme will reduce the amount of CO₂ npower emits (per unit of power generated), compared to 2000 levels, by around 33% by 2015. Almost a third of this investment is planned to take place in Wales including the recently announced investment of £800 million on a new combined cycle gas turbine power station at Pembroke; the £175 million investment at Aberthaw power station to reduce emissions and extend the life of the plant; and the £190 million investment in Rhyl Flats offshore wind project which will provide an extra 90MW of generation capacity by mid 2009, helping the to achieve the Welsh Assembly's 2010 renewable targets. We also announced that the UK's first Carbon Capture Pilot Plant would be located at Aberthaw Power Station by 2010.

RWE npower's initiatives to help fuel poor and vulnerable consumers

RWE npower is committed to playing its part in helping to tackle fuel poverty. Last year, we spent over £32 million in providing support to over 500,000 of the UK's poorest households.

We provide a wide range of initiatives designed to provide sustained practical help to those who are struggling to pay their energy bills, in some cases irrespective of whether they are RWE npower customers. Elements of our programmes are outlined below.

Energy efficiency measures and Warm Wales

Through our funding of energy efficiency measures for residential consumers we are active in many parts of Wales but particularly in the Neath Port Talbot and Wrexham areas where, in partnership with local authorities, we have established the award winning Warm Wales initiative.

Warm Wales offers help to residents on a door by door, street by street basis and is highly effective at reaching those most at need in both social housing and private homes. We have recently committed funding to operate the current programme for a further two years and we plan to extend this approach to other parts of Wales during 2008.

To date we have invested over £16 million in our energy efficiency programme in Wales, providing energy saving measures to over 86,000 households. This has produced carbon emission reductions in excess of 8,100 tonnes per annum, created 60 new jobs and provided new skills and training to a further 258 local people. More significantly we have helped the most vulnerable households claim an extra £2.8 million of unclaimed benefits and lifted homes out of fuel poverty.

Under our Carbon Emissions Reduction Target (CERT), which will operate from April 2008 to March 2011, we will increase our investment across Great Britain significantly to an estimated £400 million, of which 40% of the energy savings will be targeted at priority group households. It is envisaged that our funding commitment for energy efficiency measures in Wales will more than double under this programme.

This year we are also working with other major energy suppliers, EAGA and BERR to write to 250,000 people in Great Britain who are eligible for pension credit informing them that they are entitled to free insulation, central heating grants and other services. We would expect the take up in Wales to be proportionate.

Health Through Warmth

RWE npower's Health Through Warmth Scheme benefits vulnerable people, whose health is affected by cold or damp living conditions,

irrespective of whether they are RWE npower customers.

In partnership with local authorities, health, housing associations and other community based organisations we create wider awareness of the links between cold or damp homes and ill health and offer practical solutions by sourcing grants and funds from various sources, including the unique npower Health Through Warmth crisis fund which will provide assistance where no other support is available.

Health Through Warmth has established schemes operating in the Vale of Glamorgan and Wrexham & Flintshire. These have helped to train over 1,200 local key community workers enabling them to act as scheme referrers; this is crucial in identifying the people most in need. Over 2,100 referrals have been made via these two schemes and we have been able to provide in excess of £2.5 million of assistance to the households identified, including boiler repairs and replacements, and access to additional benefits.

RWE npower has recently committed a further £4.5m of funding to the Health Through Warmth scheme to continue the programme for the next three years.

First Steps and Spreading Warmth

Our social programmes for RWE npower domestic customers, First Steps and Spreading Warmth, provide additional support for our most vulnerable consumers. In 2008 we have committed approximately £7 million to fund benefits to customers on these programmes.

First Steps was launched in 2006. This provides customers with our cheapest tariff, irrespective of their payment method. Currently this is over £240 cheaper for a dual fuel customer than our standard direct debit prices. The tariff is part of a wider holistic programme through which customers are offered one to one account management, debt relief, energy efficiency advice and measures, and benefit entitlement checks. The average benefit to a customer joining our First Steps programme is over £1,200 per household, the majority of which will be annually reoccurring benefits.

First Steps is just part of our wider Spreading Warmth programme, which provides a range of additional help to RWE npower's customers such as energy efficiency advice, large print bills, home visits, password protection and free gas safety checks.

We have invested heavily in communicating our First Steps and Spreading Warmth programmes to all of our staff, particularly those who speak to customers every day. Our front line employees are best placed to identify those who are most vulnerable and to refer them to our specialist team to make sure they receive the most relevant help.

Additional mitigation against recent price increases

In January RWE npower had to make the difficult decision to increase prices in light of rising costs. The increases for our standard domestic electricity and gas customers in Wales were the lowest for npower customers across Great Britain. The gas price increase was 14.5%, well below the average increase of 17.2%. Electricity price increases were also lower than average at 9.2% in the Swalec region and 11.3% in the Manweb area.

RWE npower was able to ensure that customers paying by pre-payment meter (PPMs) experienced lower than average price increases. Indeed electricity PPM customers in Wales had their prices reduced by around 3%. This was partly due to the work npower has been undertaking to upgrade from token meter prepayment, resulting in a reduction of the extra costs associated with serving these customers.

Prices to customers on RWE npower's First Step social tariff were not increased.

RWE npower also committed an extra £4 million to provide rebates of between £80 and £100 to its 50,000 most vulnerable customers. These customers have also been offered free loft and cavity wall insulation to further help offset the impact of the increase.

Appropriate government policy instruments for reducing fuel poverty

We are engaged in ongoing dialogue with various government departments to establish the most effective means of alleviating fuel poverty: RWE npower is also members of government's Fuel Poverty Advisory Group. We would like to see all parts of government as well as other relevant industries working collectively to develop a long-term sustainable approach to tackle poverty as a whole. .

Other measures that could assist in the alleviation of fuel poverty include:

More help from government through data sharing with suppliers, required to enable them to identify and so more effectively target vulnerable customers

Increased use of Fuel Direct by extending its availability to those on benefits and not just those in debt. This would help us offer more attractive tariffs.

A universal roll-out of Smart Metering

We try to encourage those who are struggling to pay their bills to contact us and we make customers aware of the assistance by providing information with bills. However the most vulnerable households are often the hardest to reach and communications from energy suppliers are sometimes viewed with suspicion. The establishment of our community based programmes gone some way to help resolve this issue. We would welcome the opportunity to working with the Welsh Assembly Government to investigate other initiatives which, with their support, would promote assistance to the fuel poor in Wales.

RWE npower's additional investments in local communities

RWE npower is committed to working closely with the communities in which we operate. Since 2004 we have been a 'Percentage Club' member and as such is one of only 130 companies in Great Britain to invest more than 1% of pre-tax profits into the community.

We have a comprehensive education programme focused on energy efficiency and fund interactive 'Greener Schools' events. We also offer work placements for both students and teachers.

We have a strong partnership with the NEA funding regional events to raise awareness of fuel poverty and the measures required to alleviate it. This year we are funding their national conference. For the last three years we have also committed £170,000 a year to fund the Home Heat Helpline an the impartial, single-point of advice for vulnerable customers set up by the Energy Retail Association in conjunction with energy suppliers.

We are involved in a number of initiatives in the local communities around our power stations. In Pembroke, a 'Communities First' designated area, we sponsor a number of programmes including Pembroke 21c Community Association, Pembrokeshire Coastal Forum and Macmillan Cancer Support Pembroke & District Committee. In Aberthaw in addition to provided funding to various local community groups and charities, we have recently established an apprentice programme in partnership with Bridgend College.

Our renewables division has a Welsh development office based in Technium Sustainable Technologies on Baglan Energy Park. We also have a growing relationship with Technium, Pembroke Dock with regards to our proposed power station plans and Technium Swansea regarding our carbon capture pilot plans at Aberthaw.

Each year over 1,000 RWE npower employees volunteer to take part in community projects and our staff has helped to contribute over £2 million to Macmillan Cancer Relief.

Of course we are also proud sponsors of the Ospreys Rugby Club.

Additional evidence from RWE npower

Energy prices and the retail markets for electricity and gas

The UK has moved from being an exporter to an importer of gas. Consequently, and as a result of improved infrastructure links to European and world markets, it has become more exposed to international prices. Continental gas prices have been pushed up by the rise in oil prices as most are indexed to oil and liquefied natural gas prices have increased as a result of demand from Asia notably Japan. With regard to Europe, RWE supports measures that strengthen competition in the EU (and contribute to an economically and ecologically sensible climate protection strategy).

In January, Ofgem produced evidence that showed that Britain's domestic electricity bills are still competitive with most other EU countries being on a par with the EU average and that its domestic gas bills are amongst the cheapest in Europe being comfortably below the EU average (Ofgem Factsheet 66).

Ofgem stated in January that: " "Britain's domestic energy market is highly competitive and remains the most competitive in Europe." "The six major companies in the domestic energy supply market are competing aggressively as reflected in the changing market shares, the customer numbers switching supplier, the degree of product innovation, the improvement in customer service and low margins. Only this week Ofgem released the most recent figures for consumer switching. This illustrated that 5.1 million households transferred supplier during 2007, the highest rate in the last five years. Competitive pressures have reduced domestic energy retail margins, as E.ON UK and Centrica have commented. Since 2002 npower's domestic energy retail margins have been in single figures and at times negative.

RWE npower's recent domestic electricity and gas price increases were necessitated by the rising forward electricity and gas wholesale commodity costs for 2008 which increased by 66% and 60% respectively since mid-February 2007, as well as increases in network charges, social obligations and environmental costs the last of which will inevitably continue to increase.

Customers, however, have been protected from the full impact of wholesale prices increases over recent years as a result of hedging. A view of the movement in costs (forward wholesale commodity costs for electricity and gas, transport, EEC and metering) and of npower's Dual Fuel Quarterly Cash and Cheque bill from 2004 to 2008 shows that the difference in prices and costs is now roughly the same as in 2004 and the retail price lagged the increase in costs for 2005 and much of 2006 (see Appendix A).

Whilst all companies are subject to similar increases in energy commodity costs and CERT at the same time, there is in fact a significant variation in the timing of price movements for domestic customers. This variation in the timing and scale of price changes may be due to differences between suppliers hedging and/or business strategies.

Appendix A