

**SSE Evidence to the Welsh Sustainability Committee ahead of Evidence Session
on Fuel Poverty in Wales**

Company Information and Executive Summary

SSE is the UK's second largest supplier of electricity and gas, with 9.15 million customers. It supplies energy to 1.23 million customers in Wales through its SWALEC brand. SSE is also involved in the generation, transmission and distribution of electricity, and in the storage and distribution of gas in Wales. SWALEC is headquartered in Cardiff and currently employs over 1200 staff.

Ahead of the Evidence Session on Fuel Poverty on 26th November, below is SSE's submission to the Sustainability Committee. The key points are:

- SSE has recently stated that its goal is not to increase prices until the end of 2010 at the earliest, in order to provide customers with a degree of certainty about their energy bills. This is in spite of the future upward pressures on energy prices that suppliers face.
- SSE has increased, and will continue to increase, its spending on fuel poverty in the UK and Wales. It is also increasing the number of Welsh customers it helps through its social assistance package.
- SSE continues to offer the most generous social tariff of any energy supplier to its most vulnerable Welsh customers - it has also recently introduced an additional element to its social assistance package in order to help as many customers as possible.
- In addition to its social tariff SSE is also involved with a number of partners, and in a number of other programmes, to combat fuel poverty in Wales;
- SSE is keen to carry out more than its share of CESP projects in Wales, and is currently recruiting a CESP Project Manager specifically for Wales;
- It is also heavily involved with the CERT programme in Wales with 11,000 loft and cavity walls insulated in 2008-09.

Developments In 2008-09

Since the Committee's last evidence session in October 2008 fuel poverty has continued to be a prominent issue politically, and in the media. SSE is aware that energy prices are likely to rise in the medium and long term and will therefore continue to work with both the UK and Welsh Assembly Governments in order to ensure that it is doing as much as possible to protect its customers. The following sections focus firstly on suppliers' social assistance spending, secondly on energy prices and thirdly on energy efficiency work:

1) Suppliers Social Assistance Spending

In the 2008 Budget the UK Government announced that the major energy suppliers had agreed to increase their voluntary social assistance spending to £150 million by 2011. The interim targets set by the Government for the years leading up to 2011 were £100 million in 2008-09, £125 million in 2009-10, reaching £150 million by April 2011. This represented a significant increase on the £57 million that was spent in 2007-08.

In July 2008 Ofgem announced that it was introducing a new, stricter, definition of a social tariff. Previously a social tariff had to be at least equal to the supplier's standard direct debit tariff – the new definition meant that a suppliers social tariff had to be at least equal to the lowest tariff available from that supplier in that region. SSE welcomed this measure; its social tariff 'energyplus Care' has always been the lowest tariff available to any of its customers.

In August 2009 Ofgem announced that suppliers had spent a total of £157 million in 2008-09, exceeding the previously agreed spend by 57%. During the same period, the number of

customers in receipt of a social tariff more than doubled from 460,000 accounts in March 2008, to over a million accounts by the end of March 2009¹.

1a) Mandated Social Tariffs

During the Summer of 2009 the UK Government announced that, from April 2011, it is proposing to mandate social assistance packages through energy suppliers, building on the current offerings that suppliers provide. SSE believes that any package of this type must be:

- 1) *Simple and easy for customers to understand and receive*
- 2) *Designed so it does not impact too heavily on non fuel poor customers with costs specified upfront*
- 3) *Equitably spread across suppliers*
- 4) *Set up so that eligible customers can be easily found by energy suppliers*
- 5) *Designed so that implementation costs are kept to a minimum*

The Government's current implementation plans include introducing a bill rebate for a defined group of recipients, which is a simple and welcome intervention. However, they also intend on introducing a list of qualifying criteria for another group of people who may be eligible for a rebate, and intend on preserving suppliers' extensive existing social provisions. This will make things very confusing for customers.

1b) SSE Developments

In September 2009 SSE introduced an additional element to its social assistance package known as the Winter Care Rebate. This reflects the direction which UK Government policy on social assistance is currently taking, as well as allowing SSE to assist more vulnerable customers. This extra assistance provided continues to offer help to customers, irrespective of their age or the need to be on benefits

Those customers who are spending between 10-14% of their income on their energy bills are offered the Winter Care Rebate which is a £50 rebate per account – dual fuel customers therefore receive £100 a year. **SSE already has 8,674 customers signed up to this scheme despite it only being introduced in September.**

For those customers who are spending 15% or more of their incomes on their energy bills SSE offers 'energyplus Care', the most generous social tariff currently available in the UK. It offers customers a 20% discount from standard credit prices, free energy efficiency measures, discounted A-rated appliances, and a free benefits entitlement check where appropriate. These details have not changed since SSE gave evidence to the Committee last October. However, SSE did equalise the tariff completely in November 2008 so that all customers pay the same rate in the region regardless of payment method.

When SSE gave evidence to the committee last year it stated that its aim was to have 100,000 customers on energyplus Care tariff by March 2009. It achieved this, with numbers increasing from 77,000 to 103,000 in the year 2008-09.

1c) SSE Social Spend Facts

SSE's agreed contribution for the 2008-9 social spend period was £16 million, and it has agreed to spend at least £22million in 2009-10. However it eventually spent £17.76million in 2008-9, an increase of over £4 million on 2007-08 levels. Of this £17.76million:

- £14.87million was spent on social tariffs: although SSE does not break down its fuel poverty spending by region, it has made some approximate calculations for the amount spent on social assistance programmes in Wales:

- In 2008/09 SSE contributed in the region of £4 million to SWALEC customers.
- This figure looks set to rise to approximately £4.75 million in 2009/10, excluding the gas pre-payment rebate mentioned below.

¹ Ofgem – 'Monitoring Suppliers' Social Programmes 2008-09', p1

As of November 2009, SSE has approximately 120,000 customers on energyplus Care. Of these around 24,500 are in Wales, which marks an increase of 22% on November 2008 levels. SWALEC energyplus Care customers currently make up 20.4% of SSE's UK total.

In total, SSE's social assistance package helps nearly 130,000 customers across the UK.

- **£1.69million was spent on rebates:** SSE continues to offer various welfare rebate payments to customers identified as being vulnerable or in fuel poverty and in need of assistance. Customers targeted for these rebate payments were either on SSE's Priority Services Register, energyplus Care tariff or were on a low income and hence paying for their energy bills through a budget scheme.

- **£1.2 million was spent on other initiatives** including: joint industry initiatives, energy efficiency initiatives, partnerships and benefits entitlement checks.²

1e) Benchmarking

To conclude this section, SSE would like to refer to a statement from the Sustainability Committee last April which noted that "At 0.49 per cent, British Gas appears to contribute the largest proportion of turnover of all suppliers", and Ofgem's report into supplier's social contributions stated that "that British Gas contributed £82million towards its social initiatives. This equates to 52% of the £157million overall total contribution made across all suppliers, although it only had a 33.55% market share".

SSE has been repeatedly frustrated by external analysis of suppliers' social contributions. Generally, contributions are worked out by crudely comparing a supplier's social tariff against its own general prices and counting the difference as "social spend". However, the analysis does not compare a supplier's prices with other suppliers' prices. This means that, at times, British Gas have been counted as providing social spend through their social tariff when, in fact, it has been, at times, more expensive than SSE's standard direct debit tariff (which a multi-millionaire could be on). This is not right; therefore appropriate benchmarking should look at suppliers' social discounts against a market average price.

2) Energy Prices

In March 2009 SSE reduced its electricity prices by 9% and its gas prices by 4%. This was prompted by a drop in the wholesale price of energy which, having risen substantially between February 2007 and June 2008, started to decrease in the autumn of 2008.

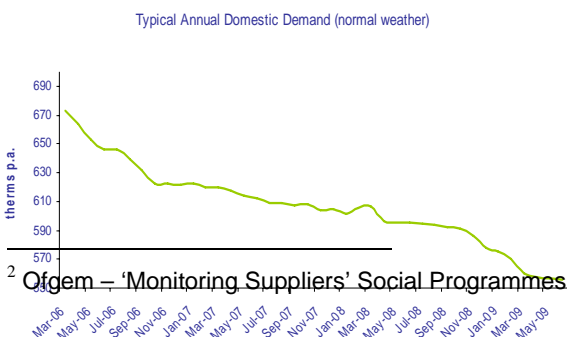
Recently there have been calls for suppliers to reduce prices further. However, although wholesale energy prices have fallen since October 2008 there are a number of other pressures on prices that suppliers have to consider before making further pricing decisions. These pressures include:

- **Substantial increases in the cost of Government programmes:** these include CERT, CESP, the RO, and will include social assistance and Carbon Capture and Storage levies decisions on these are finally made:

- In 2008 these costs amounted to £67 per customer per year.
- In 2020 these are anticipated to be **at least £180**, and they could be more.

It should be stressed that these costs are imposed on energy suppliers by the Government.

- **Increased network costs;** these have increased by £60 in the last five years, and a further £20 will be added in April 2010. More increases are expected as part of the massive investment programme that is required to upgrade the UK's network infrastructure. Once again it should be stressed that these costs are not set by the energy suppliers but by the regulator, Ofgem.

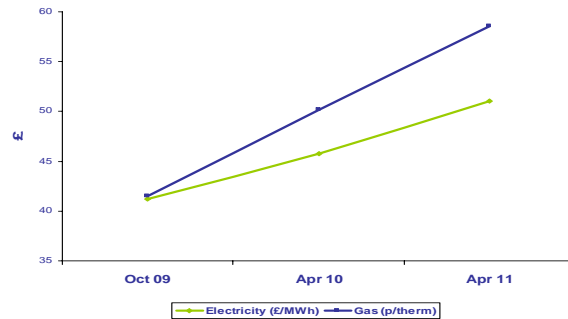


- **Reduced customer demand;** suppliers buy energy significantly in advance (up to 2 years) of customers using it. This is known as hedging, and it protects customers from the volatility of the wholesale market in the short and medium term. However on occasion

consumers will use less energy than suppliers anticipated – this has happened over the summer of 2009 with gas usage in particular falling substantially.

As such customers are taking longer to consume the energy that was bought in advance at much higher prices; the result is that it takes longer for cheaper wholesale costs to be passed through to customers

- **Higher forward wholesale energy prices;** to assist in determining future prices and hedging strategies, suppliers use the forward market as a guide. According to SSE's market sources prices for electricity and gas in April 2010 are 10% and 20% higher respectively than for October 2009.



Prices in April 2011 are 20% and 40% higher respectively. These figures are reflected in the graph above and provide an upward pressure on future pricing decisions.

With energy prices set to rise in the medium to long terms, together with a combination of rising network costs and rising Government-imposed environmental and social levies, there are significant upward pressures to counter the downward pressures on prices. Amidst this variety of upward and downward pressures facing energy retailers, SSE believes that avoiding an increase in prices in the period to the end of 2010 is an important goal, in order to provide customers with a degree of certainty about their energy bills.

3) Community Energy Efficiency Work

In addition to the above, SSE prioritises tackling energy efficiency, above all other interventions, as the best mechanism for tackling fuel poverty. It does this through the following ways.

Carbon Emissions Reduction Target (CERT)

SSE firmly believes that energy efficiency is the most sustainable means of tackling fuel poverty, and provides the best way to achieve a reduction in carbon emissions arising from energy consumption. As noted above SSE is heavily involved with the CERT programme in Wales - **in 2008-09 SSE insulated 11,000 loft and cavity walls throughout Wales, which represented 6% of SSE's UK total.**

However, SSE does not view the roll-out of CERT measures on their own as a sustainable way of tackling either carbon emissions or fuel poverty. As such SSE favours a localised approach that deals with community-specific problems on a case-by-case basis – this often involves making sure that people are on tariffs which are appropriate for their circumstances, helping people to access benefits that they may be unaware they qualify for, as well as providing support and advice for people over the medium and long term to allow them to make informed choices about both their energy usage and their behaviour. Overviews of some of these projects are below:

- ***St Athan Community Project***

As part of the work being undertaken in the Smart Meter trial in St Athan, a broader community scheme has also been started. The aim is to assist and encourage the residents to reduce their energy consumption in this area. If the community meets its energy reduction targets then SWALEC will provide a £20K community fund. SWALEC has provided direct support and advice to customers in order to ensure that residents are provided with the most appropriate methods for reducing their energy use.

- ***Rhondda Cynon Taf***

Rhondda Cynon Taf and SWALEC have been working together on a Park Homes project in Aberdare. Assessments of a number of homes have been carried out to establish the air tightness, heat loss, existing insulation and overall running costs. Typically these types of homes have a particularly high level of residents who fall into fuel poverty and are exceptionally difficult to heat. It is hoped that in due

course homes of this construction type will be able to have wall / floor and roof insulation, drastically reducing heat loss and running costs.

- ***Carmarthenshire Council***

SWALEC has been working with Carmarthenshire Council on an initiative at Ferryside, a seaside village in the county. The initiative aims to raise awareness of energy use and mis-use, and shows residents how to be more energy efficient particularly for those who are suffering from fuel poverty.

- ***Mold Energy Advice Centre (EAC)***

SWALEC has been working closely with Mold EAC in the establishing of a small bespoke pilot in an area of the town with a high proportion of fuel poor households. Very exacting information was collated by the manager of the EAC which was transferred into a report for those taking part in the pilot. All aspects of a home's usage were taken into account – even down to the make and model of appliances. The information was then fed back to those taking part and advice given on how best to modify behaviour in respect of consumption.

- ***Other Community Projects***

SWALEC has been involved in a number of community projects in Mid Wales. This included supporting the Brecon Beacons National Park in their bid to win NESTA's Big Green Challenge. The Park was one of the 10 Finalists and data initially obtained using Real Time Display's will be used to offer substance to their position. In addition support was given through providing insulation and advice on energy efficiency, tariffs and social tariffs, and vulnerable customer care issues. The community approach has now resulted in a not for profit company being set up to promote sustainability and the overall well being of those in the area.

Community Energy Saving Programme (CESP)

The Community Energy Saving Programme – CESP – requires gas and electricity suppliers to deliver energy saving measures to domestic consumers in specific low income areas of England and Wales. CESP has been designed to promote a 'whole house' approach and to treat as many properties as possible in the defined areas. The CESP period runs until 31 December 2012.

Subject to the assessment of project viability, it is SSE's intent to enact a number of CESP projects in Wales - the exact locations of these have not yet been decided upon (see below) but SSE is examining potential project sites all over the country.

To this end SSE is actively engaging with the Welsh Assembly Government's CESP team, as well as with a range of councils in both the North and South of Wales, and is currently recruiting a CESP Wales Project Manager. It has also been in discussions with a number of Welsh contractors with a view to gaining a better understanding of how the programme can be delivered in Wales. SSE is keen to trial different approaches to delivering the CESP objectives in Wales and is therefore planning to manage some of the projects directly, and employ outside contractors to manage others.

Currently SSE is carrying out assessments of a number of potential project sites, examining the different funding mechanisms that are available for these, and engaging with potential partners to examine how the programme can be delivered most effectively. This process will continue until the start of 2010 by which time SSE hopes to begin signing Memorandums of Understanding with Welsh partners with a view to taking specific projects forward.

4) Additional Assistance to Customers

In addition, SSE has been involved in assisting vulnerable customers in a number of other ways - Ofgem recognised this work in its August 2009 report. Looking forward to this winter, SSE is continually training its staff to identify customers who are fuel poor - this proved very successful last winter, with around 800 customers being referred on a daily basis from Advisors to the team who deal with the assessment for energyplus Care.

- In April 2008 SSE published its Code of Practice for Fuel Poor Customers. This has recently been updated and SSE has made a commitment to review the Code on a 6 monthly basis. This review is

undertaken with an independent fuel poverty advisor. The Code of Practice is attached with this submission.

- SSE has significantly enhanced its working relationships with external agencies, particularly the CAB, in Wales, and has run joint workshops throughout the UK to share information and best practice. Money provided by SSE to the CAB has led to the funding of Energy Advisors at CAB offices in Merthyr Tydfil and Swansea to become a specialist in the area of energy; these advisors have then provided specialist training across the bureau.

The focus of their work has been to identify customers who need help with either their energy accounts or energy efficiency in general and to pass on information relating to the extra help we can provide through careline, tariff advice, the rebate and energyplus Care. The Advisors also visit customers in their own home to provide in-depth advice in relation to energy efficiency and billing issues. SSE has also set up a dedicated team of specialist Advisors to work with Agencies when they are dealing with clients who are customers of SWALEC

- SSE offers customers who may be having difficulty in paying their bills 'tailor-made' payment arrangements that suit their needs and circumstances. In September 2009 customers with around 250,000 electricity and gas accounts were taking advantage of these arrangements – this number is likely to rise because of the current economic climate.

- SSE will shortly issue credits worth a total of almost £3.5 million to approximately 290,000 customers who use gas pre-payment meters. **Around 30%, or 85,000, of these are SWALEC customers.** The credits are equivalent to equalising gas-prepayment meter tariffs with standard credit tariffs from 1 November until 31 March 2010. There is no extra charge on SSE's electricity prepayment tariffs, which were equalised with its standard credit tariffs in 2006.

- SSE will also shortly be sending out its Customer Winter Pack. SSE has identified around 450,000 potentially vulnerable customers and will be sending out letters before Christmas that offer advice on keeping warm through the winter, as well as offering a free energy saving device. If customers choose to take this offer up then the device, together with a 16 page booklet providing energy efficiency and other energy-related information, will be sent to them in early January.

- SSE is also involved with Fuel Direct, also known as the Third Party Deduction Scheme, which is available to customers who are in receipt of certain benefits and have an outstanding balance on their gas or/and electric accounts. This allows customers to have their payments taken straight out of their benefits and debt to be repaid at minimal rates (£3.25 per week). It is operated by the Department of Work and Pensions who make payments directly to the customer's energy company. The amount to be taken is capped to a reasonable proportion of the benefit entitlement, although the situation is different for each customer and some customers do agree to pay more than this percentage.

- SSE offers 'equigas' and 'equipower' tariffs via its longstanding partnership with EBICo, a not for profit organisation. This arrangement costs SSE around £500,000 per year. Customers on equigas and equipower tariffs pay the same price for their energy supply irrespective of payment method with no separate standing charge. This means that in effect direct debit and quarterly credit customers pass on their savings to prepayment meter customers, whose rates are cheaper than SSE's standard prepayment tariff. EBICo targets its marketing of the tariffs to customers who wish to help other customers who are in financial hardship. EBICo also works to ensure those on PPM tariffs who would benefit from this subsidy are indeed in need of that assistance.

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