

Sustainability Committee

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Letter to the Chair from Scottish and Southern Energy: Further evidence on Fuel Poverty in Wales

Dear Mick,

Thank you for your letter following the Sustainability Committee session last month. In my response I have endeavoured to come back to your specific questions.

1) SSE's fuel poverty spend in Wales.

As you know, energy companies agreed in April last year to provide £100 million to customers for year 08/09. Our share of this is £16 million, which we are spending primarily through our social tariff, Energyplus Care, which, as you know, provides customers with at least 20% off bills, as well as free insulation measures and benefits checks. I can confirm that 25% (or £4m) of our total £16m "spend" via the social tariff this financial year will go to Swalec customers.

Beyond that, our subsidisation of PPM customers for electricity, through equalising the typical bill costs us approximately £3 million in Wales.

In Wales only, Swalec created an innovative tariff called 'Easywarm'. Essentially, this tariff offers older customers (over 60s) a fixed charge to cover their household's usage of electricity and gas, providing them with certainty over time, thus meaning they do not have to compromise on comfort levels over winter. The charges are based on the number of persons & bedrooms in house, with payment by direct debit. When we last calculated the subsidy of this tariff in April, when it came to around £4million a year.

We also provide rebates to many Welsh customers at an estimated cost of £11.4 million across the UK, but we do not hold specific Welsh related figures.

We also have a number of relationships with charities and other third party groups. In 07/08 we spent £503k for the cost of our partnership with EBICO and around £110k for other partnerships. In addition we spend £84k on the ERA's Home Heat Helpline and £12k for the recent DWP mailout. We have also recently announced a fuel poverty partnership with CAB which will cost us £450K over the next three years.

Over and above expenditure that is directed solely at fuel poverty, there is the huge programme of work that benefits customers in the form of energy efficiency schemes. This was done under the auspices of the Energy Efficiency Commitment (EEC2) where the estimated cost of Swalec's measures (on a DEFRA basis) to Wales over the three years to 2007/08 was £25m. These schemes involved a high content of measures aimed towards less advantaged customers such as fridge-savers, social housing schemes, insulation for priority groups and free energy efficient light bulbs to priority groups. The transformation of EEC2 into the current CERT programme involved a doubling in scale. Over the summer this elevated target was increased by a further 20% along with an additional 12.5% for community energy saving schemes. The measuring and scoring of these massively uplifted schemes has not been finalised by government yet and it is not possible to provide a reliable regional breakdown of the outturn for 08/09.

While the bare amount of money a supplier spends on voluntary programmes is a relevant factor to consider, we do not believe it is the only important factor. The price of energy is the most important consideration for families living in fuel poverty and, given that SSE's total customer base in UK has saved around £1 billion in the last 4 years compared with customers of the largest supplier, it is important that this is recognised as well.

2) Details on the company's pricing structures

These are attached with this note.

In short, we believe that our tariffs are cost reflective: direct debit discount is 5% off standard credit prices, people paying their standard credit bills on time get 2.5% off their bills.

SSE has also recently changed its policy on PPMs. Previously, we had equalised electricity PPM rates with standard credit rates, while gas customers reflected the cost to serve (approx £40). However SSE has adjusted the tariffs so that now people on electricity PPMs don't pay a standing charge. In fact, below average users of PPMs for electricity now actually pay less than standard credit customers.

3) Information on your company's position on whether there ought to be a mandatory social tariff

Our view, enshrined in our code of practice, is that suppliers should ensure that any social tariff is the lowest cost tariff that is made available by them to any type of customer, or any type of payment or sign-up method. Ofgem have now made this a requirement.

A UK wide fixed social tariff would, however, be a very blunt and inflexible way of targeting support to fuel poor households. A fixed tariff would not be sensitive to the market with perverse consequences, at a time where the market is so volatile. For example, at times, open market prices may be more competitive than the fixed price, and at other times, the price could be uneconomic with the general customer base cross subsidising the fuel poor. So a fixed tariff would require repeated intervention by government regulation to re-set

it in response to prevailing market conditions. This regulatory burden would be substantial.

If suppliers were legally obliged to offer fuel poor customers a tariff that was a percentage cut off an existing tariff, those suppliers with the most competitive general tariffs would be penalised. Suppliers with pricing policies that include a larger margin would be able to more easily accommodate the social tariff because there is a 'buffer' built into their price.

A fixed percentage reduction off, say, each suppliers standard offering would risk distorting pricing to the generality of customers. A legal requirement to provide a tariff like this would therefore put upward pressure on the standard energy prices for all other consumers.

For the above reasons, there would also be a real incentive for suppliers to 'not find' the fuel poor. There would be a competitive advantage in not winning fuel poor customers, since commercially there is less to earn from them and they would likely be loss making.

We are currently able to provide the deepest social tariff on the market precisely because it is voluntary. We decided to assist SSE customers in a meaningful way but target it to those who are in acute fuel poverty. Removing discretion and opening up the tariff more widely will make our pricing policies uneconomic and we would need to reconsider whether we are able to provide such a generous tariff.

4) Clarification on whether a customer on the Social Tariff is as a result taken off the fuel poverty list

Could we get clarification on this question, as there is no fuel poverty list as such? If there was, it would be much easier for us to find our fuel poor customers. In the meantime, I interpret this as being, "does this social tariff take people out of fuel poverty?"

The answer to this is uncertain, however, given the extremely high discount (which is even higher than 20% now as we froze price increases on these customers) and the free insulation measures and benefits checks, we know that this social tariff has more of an impact than the social tariffs of any of our competitors.

Regards

Richard