



The All Party Parliamentary Group
on
POVERTY

Minutes of the evidence session on business solutions to the poverty premium (utilities)

Wednesday 12th December 2018, 16:00-17:00, Portcullis House - Room U

Officers present:

Patricia Gibson MP (Chair)

Baroness Ruth Lister

Giving evidence:

Dan Alchin Energy UK

Sara Vaughan E.ON Energy

Others present:

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| Jane | Ahrends | Child Poverty Action Group |
| Helen | Arya | Oasis Community Learning |
| Benjamin | Bessey | Lyn Brown's Office |
| Samantha | Dottin | Tower Hamlets Council |
| Francis | Earl of Listowel | House of Lords |
| Liam | Evans | Turn2Us |
| Rianna | Gargiulo | The Equality Trust |
| Robert | Geary | Wagestream |
| Emma | Johnson | Oasis Community Learning |
| Dan | Meredith | E.ON Energy |
| Carl | Packman | Fair By Design |
| Alison | Stoecker | John McDonnell's Office |
| Jase | Wheatley | incuto |
| Wanda | Wyporska | The Equality Trust |

1. Evidence from utilities providers and trade associations

Sara Vaughan, Political and Regulatory Affairs Director - E.ON Energy

Sara is representing E.ON Energy, a midlands-based energy services and solutions supplier that is 95% unionised and a Living Wage employer. Sara's colleagues deal with people living in poverty everyday and have a good understanding of the impact poverty. Some customers are unable to pay by direct debit because they do not have access to a bank account, this includes customers on a prepayment meter (PPM) or paying quarterly on receipt of their bill. There are also customers who cannot afford to pay their bills at points in time and these people either get in touch to explain this, or may not get in contact but will default on payments.

E.ON's advisors are trained to recognise customers that might be struggling financially by the words they use to describe their situation. This 'Care and Assessment Tool' guides the advisors to ask certain questions and allows E.ON to keep records of vulnerabilities identified during calls with customers. Customers identified as vulnerable are then recorded on a priority register. The feedback received about and/or by E.ON advisors in relation to this area of their work is very positive.

E.ON also has a small, specially trained team who can attend home visits if there is a significant concern raised. They work with other organisations including Christians Against Poverty, Citizens Advice and Money Advice Trust to support people to be able to pay their bills. Sara noted that E.ON also pay the Warm Home Discount.

E.ON also fit energy efficiency measures into people's homes, and they offer these at no cost to customers living in poverty which will save them a significant amount on their bills. They also have a fund available which is used to support customers to buy new white goods or to write off amounts owed to other companies on white goods. Sara noted that if you can help a customer to get out of debt, it is unlikely they will get into it again. Sara highlighted that E.ON provide energy to a varied customer base, including customers in very vulnerable situations as well as 'savvy' shoppers.

Sara finished her presentation by emphasising the importance of improving the housing stock in the country, which she described as the 'most sustainable way out of fuel poverty'. For instance, improving a property from a 'Q' rating to an 'A' rating will save 85% on energy bills but even to improve a 'G' rated property up to a 'D' would save a household up to £2,000 a year on their energy bills.

Dan Alchin, Deputy Director (Retail) - Energy UK

Energy UK set up a commission which was chaired by Lord Whitty, and has received 50 written responses and has held a number of evidence sessions. They will be releasing the full report in the New Year.

Dan outlined the key areas of interest to commissioners:

A. Prepayment

Dan noted the impact of prepayment price cap, which has brought costs down to almost equivalent to the average fixed deal. The price cap has meant that companies redistribute the cost of energy across the entire customer base. However, he did note that more customers living in poverty by direct debit than by PPM so this policy has not necessarily benefited the majority of customers living in poverty. This is despite the fact that, of prepayment customers as a total group, the majority of these are low income.

B. Warm Home Discounts

Not all energy suppliers are required to offer the Warm Home Discount. Poorer pensioners receive the discount automatically via their energy supplier, but the broader discounts available are applied on a first-come-first-served basis. Dan noted that many people are worried that if they switch suppliers to get a better deal they may lose their access to the discount.

He said that applying the discount should be a requirement for all energy suppliers and that data matching should be used to ensure anyone eligible is identified automatically.

C. Energy efficiency

Dan said that homes are using far more energy than they should need to in order to heat their homes as a result of poor housing stock. He claimed that the Energy Company Obligation (ECO) did not go far enough considering the size of the challenge, with the Committee on Fuel Poverty also noting that there is a significant funding gap in energy efficiency measures to ensure the country meets fuel poverty reduction targets by 2030. Dan said that Scotland and Wales have their own state-funded schemes, and that he would like to see national government step in to fill this funding gap.

D. Lack of financial stability overall

Like many contributors to the inquiry, Dan highlighted the growing issue of people just not having enough money to survive. He linked this to Universal Credit and recent reforms on the high-cost, short-term credit sector.

E. Transitions in energy

Dan said that we are currently on the verge of a significant transition in energy – in terms of how customers engage with the market and how we buy and use energy. While these could be beneficial, these changes also have the potential to leave many customers behind. He concluded that it was essential to think carefully about how new products and services are designed so that we do not simply create new premiums and exclusions for vulnerable and low-income customers.

2. Q&A Session

Q Patricia Gibson MP mentioned issues relating to fuel poverty, and highlighted a key driver as the high cost of fuel payments relative to income. She also mentioned that HELMS in Scotland had undermined people's confidence in energy efficiency

measures - in this case the company's 'home improvements' increased some households' energy bills and the company went into liquidation. She asked whether the speakers thought these attitudes were still an issue.

Sara Vaughan said that E.ON do a lot of work to build trust within local communities. E.ON has a good reputation because they carefully vet contractors and their work, and are subject to oversight by Ofgem. She stated that it is crucial to rebuild confidence in energy efficiency. **Dan Alchin** noted that energy efficiency was not an area in which the industry has succeeded in 'policing itself', however, reforms are taking place currently to strengthen accreditation systems.

Dan also highlighted the private rented sector and the duty of private landlords to meet minimum energy efficiency standards, and said that this is not enforced enough as the responsibility is left to local councils who do not have the time or resources to do so.

Sara Vaughan said that not only is there not enough funding going into energy efficiency measures, but also that Winter Fuel Payments are poorly targeted with only around 1% going towards people living in fuel poverty. Sara suggested that improved targeting through a means-testing mechanism would free up funding that could be used to fund the energy efficiency measures needed. She noted that there are campaigns where people who can afford their fuel are donating their Winter Fuel Payment to those who need it more. **Patricia Gibson MP** responded that it is a result of political will. The Scottish government has allocated a lot to energy efficiency but would still need to allocate four times as much as current spending to meet what is needed.

Q Baroness Lister highlighted how the Warm Home Discount affects people's ability to switch providers, and also noted the 'loyalty penalty' as an issue which had been highlighted in previous sessions. She suggested that switching should be applied automatically for some consumers to tackle the issue of digital exclusion.

Sara Vaughan said that the introduction of price caps for prepayment customers, vulnerable customers and the new price cap for default tariffs mean that a large section of customers are now covered. She said, however, that she thinks this is the wrong solution and that the tendency to suggest price caps has gone too far. She suggested instead that those who are less able to engage with the market have a backstop protection such as a social tariff.

Q Baroness Lister asked how would these people be identified? **Sara Vaughan** responded that the industry has battled to have access to data matching with the Department for Work and Pensions in order to enable automatic payment allocation. However, this has not been effective due to data protection regulations. She also noted that this needs to be done at a local level, as local authorities have a better understanding of where the poorest housing stock is located. **Dan Alchin** added that while it is legally possible to use data matching in relation to the Warm Home Discount Scheme, local authorities are currently unaware of what they can do with the data. As such, differing levels of understanding and willingness to data match prevent national progress.

Q a member of the public asked the speakers the extent to which it is the energy suppliers responsibility to help people; for instance, should energy companies automatically switch people? **Sara Vaughan** stated that if customers are able to then the responsibility is on the individual, but that this is different when the customer is vulnerable due to poverty or through being elderly. She said it is energy companies' responsibility to identify and register vulnerable customers and initiate a conversation about tariffs and what is best for them, plus any other help they can offer – for instance, benefits maximisation, energy efficiency measures, energy fund. Sara said that she feels people get too fixated on switching.

Patricia Gibson MP noted that evidence suggests that a well-off, middle-class person is the most likely to shop around and that these people get the best deals at the expense of society's poorest. **Sara Vaughan** agreed that new energy suppliers enter the market by targeting 'savvy' customers who are also the cheapest to serve (less likely to get into debt, paying by Direct Debit and more likely to manage their accounts online), while vulnerable customers are often the most expensive to serve. However, she referred to this as an unsustainable business model. Sara noted that E.ON could not meet some of the prices offered by such companies as they would be running at a loss. She also highlighted a concern that the multiple price caps now in effect may result in the 'ghettoising' of poorer customers into using certain suppliers as companies may feel that there is no money to be made from them.

Jase Wheatley mentioned Incuto's work with Northumbria Water which had been spoken about in the most recent evidence session. He explained that if a credit union identified someone they thought to be vulnerable, they notified Northumbria Water to apply an automatic 50% discount on their bills. He highlighted the importance of the training mentioned by Sara that allows staff to recognise signs of financial trouble in customers.

Q The Earl of Listowel highlighted the issue of mental health and isolation, and asked what countries such as France and Germany do to identify their vulnerable customers. **Sara Vaughan** responded that colleagues in France and Germany cannot understand why the welfare state does not step in to tackle fuel poverty. **Dan Alchin** noted that different countries' definitions of fuel poverty show how they approach the issue. He said that most European countries have not defined it because they do not see it as an issue outside of poverty more broadly, which is an issue for the state. **Patricia Gibson MP** suggested a need for government targets to reduce fuel poverty and a strategy to demonstrate some political will. **Dan Alchin** noted that the UK government's definition is relative so setting targets will not help.

Carl Packman highlighted the University of Bristol's research which showed that not switching energy suppliers makes up the biggest proportion of the poverty premium. He suggested that housing providers should act as brokers for these transactions. **Sara Vaughan** replied that we are in the 'advent of collective switching' – for instance *Which?* invited people to join a group and switched everyone on the same day to get a better deal. She also mentioned existing groups such as trade unions, where membership already exists, as the closest thing to having a 'broker' for these transactions. Sara also said that she would prefer there not to be such a large differential between fixed term contracts and those who do not engage at all, as this puts too much onus on switching. The higher costs of Standard Variable Tariffs are often not a fair representation of the actual market costs, creating a distortion in the

market. She highlighted the importance of understanding what a fair profit is, and noted that E.ON's profits per customer are much less than that of many other suppliers. **Dan Alchin** added that the majority of complaints about utilities providers do not relate to the largest suppliers, and that while there are some good small suppliers, the variance in customer services among these often means that the cheapest provider may not be the best for a vulnerable customer.

Q Alison Stoecker asked if a social tariff could be pre-set for every household using a prepayment meter without needing to undertake data matching, as we are aware that these are almost always located in social housing. **Sara Vaughan** responded that the running costs of prepayment meters are higher for energy suppliers, hence their higher costs to customers. She suggested that one option would be for companies to cross-subsidise the cost of prepayment meters by spreading the higher cost of these across all customers. She noted that companies would be unlikely to take this action unless this was a policy decision made for all companies, as it would make suppliers uncompetitive.

Sara used this opportunity to highlight E.ON's preference towards encouraging Smart Meter installation, noting that – in the context of prepayment meters – the higher servicing costs disappear altogether. Sara also highlighted that prepayment smart meter customers are able to call E.ON if they are struggling to pay, and can have their account remotely switched between a prepayment meter and a credit meter and may be given discretionary credit for the period they are struggling. **Alison Stoecker** responded that this needs to be advertised so that it is common knowledge to those who need it. **Dan Alchin** said that prepayment meters currently do not provide a lot of data, and that the data provided by Smart Meters will help suppliers to identify struggling customers and provide appropriate support.

Liam Evans said that small, 'micro' actions taken by individual companies have made a big difference to lots of people living in poverty, which suggests how huge the impact could be if actions like these were undertaken on a bigger scale. He said that it is positive that the price caps are automatic and so do not rely on customers being proactive, and supported measures that proactively provide support for the most vulnerable customers. He suggested that a wider 'Priority Service Register' could be introduced that compiles all common core services that might impact on those living in poverty.

3. Conclusion

Patricia Gibson MP closed the final session of the Poverty Premium inquiry, thanking Sara and Dan for their contributions.

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