

# Helping low income customers through energy utility trusts – Does it work?

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## Abstract

The EDF Energy Trust was the first independent charitable trust to be established in the UK by an energy supplier becoming operational in December 2003. The Trust uses funds from EDF Energy to help their customers who have difficulty in paying their energy bills.

In the initial phase of operation, EDF Energy Trust will pay off the outstanding energy debts and ensure that the householder is offered advice on budgeting and planning their finances to avoid debt in the future. The intention is to give those trapped in a cycle of debt “a fresh start”. In the first year, 281 awards were made with a total value of over 240 000 Euro – the average grant for energy debt was 750 Euro. Additionally, we have awarded 33 grants totalling 840 000 Euro to a variety of organisations to help further the Trust’s objective particularly focussing on increasing the availability of money advice as this has proven to be in short supply in many areas due to the unprecedented levels of indebtedness currently in the UK.

We now intend to roll out the successful pilots, focussing on those areas which are identified as being most in debt. By the time of the ECEEE Summer Study, we should be able to demonstrate a marked increase in applications and practical examples of households who have been enabled to make a fresh start. By then, we should be ensuring that all applicants are being offered free personalised energy efficiency advice and in the final stages of planning, where appropriate, to facilitate the installation of energy efficiency measures in

the homes of applicants to the Trust. The Trust will effectively act as a referral mechanism to existing energy efficiency mechanisms which are either underutilised or frequently unknown to many householders.

## Introduction

The EDF Energy Trust was the first independent charitable trust to be established in the UK by an energy supplier and became operational in December 2003. The Trust uses funds from EDF Energy to help their customers who have difficulty in paying their energy bills. The establishment of EDF Energy Trust is at a time when consumer debt of all kinds in the UK has risen to record levels. Towards the end of 2004, British Gas announced the establishment of a further charitable trust to carry out a similar function. The management of both Trusts is being carried out by a charity specialist company (Charis) to minimise administration costs and to ensure consistency and indeed cross referral where appropriate.

The extent to which such charitable trusts will meet their objectives in helping those who have fallen into a spiral of debt as a result of unemployment, ill-health or relationship breakdown etc. will be judged by the success in both identifying those in need and also by the future financial stability of those the Trust has helped. In achieving this energy efficiency advice and, where appropriate, the installation of energy efficiency measures will be key components in attaining sustainable solutions in lowering the cost of future energy bills. This poster reports the first results for such an energy trust in the UK.

## Operational Principle

Consumer energy debt has long been a problem for energy suppliers in the UK. At the risk of oversimplification, the debt problem falls into two broad categories: "can't pay", i.e. those in genuine financial difficulties who are struggling to meet their financial commitments; "won't pay", i.e. those who for criminal or other reasons try to avoid paying their energy bills. The EDF Energy Trust is designed to help the first of those categories, i.e. those who have fallen into a spiral of debt as a result of unemployment; ill-health or relationship breakdown etc and these circumstances are often exacerbated by living in energy inefficient homes which increases the size of the energy bill. This is a significant problem in the UK with around 2 million homes living in "fuel poverty" – defined as the household needing to spend more than 10% of their income on energy costs to maintain their house at a reasonable level of warmth. With the recent 20% rises in residential gas prices, fuel poverty is expected to increase sharply; this would reverse the recent downward trend in the number of fuel poor households which was around 4 million in 1997. In tackling fuel poverty, it is well known that getting some of these households to avail themselves of the existing energy efficiency opportunities is difficult and a wide variety of referral mechanisms has been pursued with varying degrees of success and cost. The Trust believes that since it is dealing with householders who have fallen into significant energy debt, then this will frequently be a good proxy for their lack of awareness about energy efficiency and the existing help available. The Trust will be able to act as a referral agent to these existing sources of energy efficiency advice and support at marginal or negligible costs. The extent to which the applicants to the Trust require such guidance and referral will be measured as one of the key success criteria.

In the initial phase of operation, EDF Energy Trust will pay off the outstanding energy debts and ensure that the householder is given the opportunity to take advice on budgeting and planning their finances to avoid debt in the future. The intention is to give those trapped in a cycle of debt "a fresh start". Additionally, a few further payments can help make the lives of households in debt more comfortable by buying new washing machines, fridges, essential utensils or furniture and in some cases even paying bankruptcy fees. Once the Trust is firmly established, the intention is to integrate the grants and money advice with energy efficiency advice and where appropriate the installation of energy efficiency measures. EDF Energy, as part of its UK energy supply licence, provides energy efficiency advice to its customers. The problem is that very few customers avail themselves of this service and so the intention is for the Trust to work closely with EDF Energy to ensure that all applicants to the Trust are offered energy efficiency advice from EDF Energy personalised to their individual property and circumstances. The Trust has just begun to arrange that EDF Energy offers free personalised energy efficiency advice to all successful applicants and results on the uptake by householders will be presented at the ECEEE summer school.

As well as the provision of energy efficiency advice, from October 2005, householders will be referred onto the avail-

able grant schemes available for the installation of energy efficiency measures. For example, the householders will be able to avail themselves of the Energy Efficiency Commitment which is an obligation on all energy suppliers in the UK and which is free to low income households; we are currently planning the referral routes from the Trust to EDF Energy and ensuring that at all stages the householders wishes are respected. Additionally, there are fuel poverty programmes run by central and devolved governments in the UK and we are in discussion with the managing agents of these programmes to develop referral routes ensuring that the householder's wishes are respected.

The range of energy efficiency measures which might be retrofitted is very wide as the range of measures in the Energy Efficiency Commitment is wide and continues to expand e.g. in the latest Commitment starting in April 2005, appliances with low standby consumption and very efficient double glazing have been introduced. However, the main measures likely to be installed are:

- Insulation (cavity walls, loft, hot water jackets and draught stripping)
- Energy efficient lights
- Energy efficient refrigeration
- Heating controls
- Fuel switching (coal or electricity to natural gas)
- Replacing old boilers with energy efficient ones (condensing boilers)
- Installation of central heating (government's fuel poverty programme only)

This referral action by the Trust onto existing energy efficiency advice and grant activities is very important as there is considerable lack of awareness of the advice and grants available from energy suppliers in the UK. Often, this is because the Trust is dealing with the most disadvantaged households who do not respond to the standard promotion and publicity routes used by energy suppliers and government.

One of the financial advantages in using independent charitable trusts is the favourable tax treatment for the donor. In the case of EDF Energy, their initial 3 million Euro donation attracts a tax rebate of 30%. EDF Energy has generously donated this tax rebate to the Trust. This means that the original EDF Energy donation can be used entirely for grants as the tax rebate more than covers the costs of running the Trust.

## Progress to date

In the first year, 281 awards were made with a total value of over 240 000 Euro – the average grant for energy debt was 750 Euro which is a sum representing more than one year's average consumption in the UK. Figure 1 shows the breakdown of these grants between the payment of electricity and gas debts and further assistance payments.

Figure 2 shows the breakdown of the further assistance payments. Note that the largest category was the payment of bankruptcy fees - this decision, which writes off all the

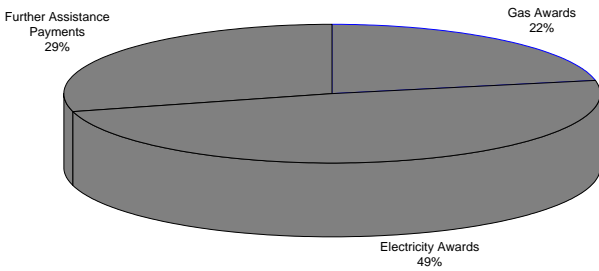


Figure 1a. Breakdown of EDF Energy TRust Grants by Number of Awards.

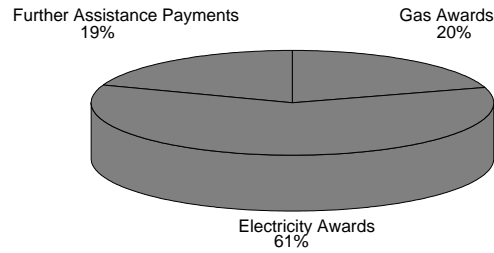


Figure 1b. Breakdown of EDF Energy Trust Grants by Amount.

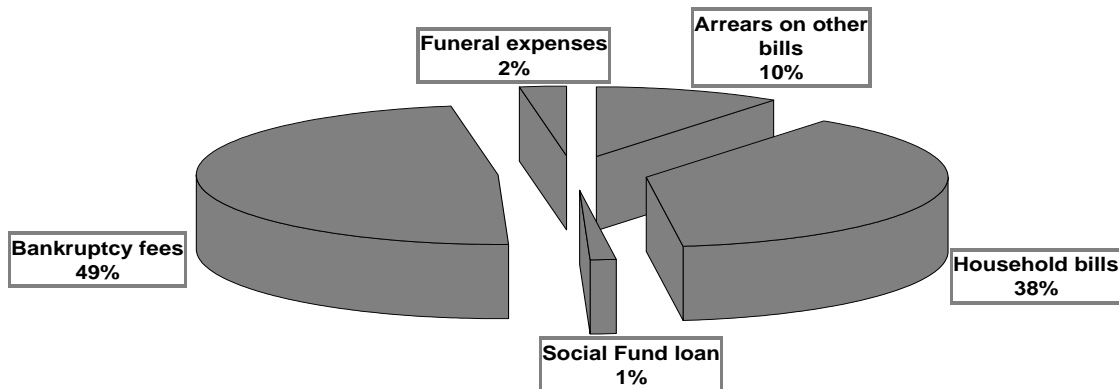


Figure 2. Breakdown of Further Assistance Payments.

householder's debts, is only taken after the specialist money adviser has concluded that this is the only way forward for that particular individual. However, for some (see example in Table 1) it is the only way forward and the Trust pays the cost of the court bankruptcy court fees (approx. 450 Euro).

Additionally, we have awarded 33 grants totalling 840 000 Euro to a variety of organisations to help further the Trust's objective. In particular, we have focussed on increasing the availability of money advice as this has proven to be in short supply in many areas in the UK due to the current and unprecedented levels of indebtedness. This is important as many of the households in financial need, not only require financial advice, but often require help to fill in the application form to the Trust.

During the first year, pilot work has been undertaken to establish the best way to increase the number of applications from customers in debt coming into the Trust. During

the course of the next year, we intend to roll out the successful pilots, focussing on those areas which are identified as being most in debt. We shall again offer organisational grants with a focus of increasing the availability of money advice in areas of particular deprivation. By the time of the ECEEE Summer Study, we should be able to demonstrate a marked increase in applications and practical examples of households who have been enabled to make a fresh start.

Our goal for the second year of operation is to award a total of 1 500 000 Euro to hard-pressed households and a further 675 000 Euros in organisational grants.

### Initial Impressions

This innovative and imaginative approach has been widely welcomed by the money advice charities, citizens advice bureaux and energywatch (the formal consumer body which

Table 1.

<p>Example of typical applicant whose only solution is to apply to be made bankrupt                  Male – age 59. Living with wife, both on benefits. Weekly income of £184 and expenditure of £168. Had arrears of £19 106.                  Applying for help with other essential bills and costs only. (£1 = 1.44 Euro)                  Background – Had built up a number of debts which he thought he would be able to pay off when returning to work. He has had many health problems over the previous 5 years which has meant that the doctor has told him he can no longer work. Sought advice from CAB and they advised bankruptcy as the only option open to them.                  Impact of grant - Assessment team agreed that an award of £620 (two standard bankruptcy deposit amounts) would allow the couple to maximise their income as well as improving their quality of life by allowing them to make a fresh start free of debt. They are also receiving money advice which is essential before any award would be considered.</p>
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oversees the gas and electricity industries in Great Britain). One consumer policy analyst has expressed concerns that charitable trusts are discretionary in the way they operate and should not substitute for government policy to address the affordability of essential services such as energy and water. However, the overwhelming consumer attitude has been positive.

EDF Energy gave funds to establish the Trust as part of its corporate social responsibility and to help their customers manage debt more successfully in the future. Establishing the Trust was one of many social initiatives that the company undertook as part of their philosophy for employees to “show you care more for your customers”. Indeed, many of the EDF Energy staff have helped in their free time with the marketing material, website etc. EDF Energy are pleased with the initial activity of the Trust but the key measure of success will be the extent to which their customers avoid falling into the spiral of debt which brought them to the attention of the Trust.

But perhaps the most rewarding impressions to date have come from the unsolicited thank you letters we have received from clients and their advisers. Below are some samples taken from our files and which make all of us involved with the EDF Energy Trust feel that we are helping people in genuine need and allowing them to make a “fresh start”.

The challenge for the next 12 months is to build on this success and to incorporate the provision of energy efficiency advice and where appropriate the installation of energy efficiency measures so that a truly sustainable solution is achieved for those households applying to the Trust. The potential for making energy savings in these households is significant. When fully functioning, between 5 000 and 6 000 households will be receiving energy efficiency advice and around 3 000 receiving energy efficiency measures. The potential energy savings from this will range from 5 to 25% of the household energy consumption depending on the measures installed. Although this has to be quantified, the Trust believes that its acting as a referral route will ensure that a segment of the most disadvantaged households in society will be able to take advantage of energy efficiency for the first time.

**Table 2.**

I am writing on behalf of our clients to thank you for your very generous payment to SWEB. She is delighted and it will enable her to truly make a fresh start. (Carrick Citizen's Advice Bureau, Truro)
Our client has asked that we write to you to say how much this has relieved her. She has been so worried about her debts that her health has seriously been affected. We hope that with this fresh start she will have the confidence to return to work and restart her life. (Direct Debt Line Ltd)
Thank you very much for your letter dated 19 April in connection with our above named client. We have informed her that your invaluable financial contribution towards her energy charges will be made within the next few weeks and we thank you for all your help. (St. Luke's Advice Service)
I am writing in response to your letter dated 19 <sup>th</sup> Feb 05 and would like to thank you for your kind offer of assistance to settle my gas and electric accounts. This has helped me considerably and has given me peace of mind that my utilities are now up to date. (Name and address withheld)
I am just writing to say thank-you very much to the EDF Energy Trust for paying off the debt on my electricity bill. This is a great help to me and very much appreciated. Long may its new Trust continue its valued work. (Name and address withheld)
Just a short note to say a big thank you for helping me with my gas and electric bill. It has helped make life a lot easier. (Name and address withheld)