



Response to:

**Assisting with Affordability Concerns for
Vulnerable Energy Consumers**

A Utility Regulator Consultation Paper

April 2010



Organisational Information

With over 60 years of shared history to draw on, Age Concern NI and Help the Aged in NI joined together in April 2009 to create a powerful new voice for older people. The two legacy charities cared for many, campaigned for change, and created vital products and services. In the last year, with the support of our partners and stakeholders we made a positive impact on 175,000 older people. If those experiences made one thing clear, it's that there is strength in numbers which is why Age Concern NI and Help the Aged in Northern Ireland became one – Age NI.

The world is getting older. The UN has called the current global ageing trend a situation 'without parallel in the history of humanity.' Here in Northern Ireland, our very own society is ageing. There are more people living here over the age of 50 than under the age of 19. In the next twenty years, the number of people over 50 will increase by more than 30%. An ageing demographic like this carries significant consequences for the fabric of our community. It changes how we plan the way we live; education systems, health and social care, work life, family life. It affects older people now and in the future. This means that policy decisions taken today will influence how our current teenagers live in the next thirty years and beyond. It's important that this message is delivered and acted upon now. That's why Age NI exists – we want to make people think differently about what it means to get older because age affects everyone in many different ways.

Response Format

As part of the Assisting with Affordability Concerns for Vulnerable Energy Consumer consultation paper the Utility Regulator has presented a set of questions pertaining to each section of the paper to help structure the consultation. However, Age NI's response may address issues that are not covered specifically in the questions raised and our response will not be presented in the format of answering each question.

Background and Context

Age NI appreciates the history, context and process for examining issues of affordability for vulnerable consumers. We note that the Utility Regulator has a principal objective within electricity functions "to protect the interests of [electricity] consumers..." however the principal objective for gas is to "promote the development and maintenance of an efficient,

economic and co-ordinated gas industry". In the Utility Regulator's 2010-2011 Forward Work Programme one of the key strategic areas outline is "advancing retail and wholesale competition by removing barriers to potential entrants and reviewing existing arrangements to promote value for consumers". If this is the case, we believe that the Utility Regulator should revisit the principal objective for the gas industry. If the gas industry in Northern Ireland is mature enough for a competitive market it should be mature enough to have the protection of interests of gas consumers as the principal objective, allowing gas suppliers to participate in working to assist vulnerable gas consumers with their energy bills.

The Utility Regulator has outlined many of the contributing factors of fuel poverty and the policy responses to date and rightly acknowledges the role that home heating oil plays in the contribution to fuel poverty given that 70% of households in Northern Ireland use it to heat their homes. The paper outlines main fuel poverty policy responses to date and indicates that pre-payment tariffs are cheaper or the same as standard tariffs and compares this to GB where there is a premium charged. While we acknowledge that there is a discount provided by NIEE we would also like to point out that all of the seven suppliers who provide a gas prepayment tariff in Glasgow and Manchester charge less than NIEE even with the 2.5% discount taken into consideration¹.

Age NI would like to take this opportunity to reiterate the specific difficulties faced by older consumers with regard to energy bills and fuel poverty. Recent figures from NEA have indicated that 38% of Northern Ireland households are experiencing fuel poverty² and research conducted by the Centre for Economic and Social Inclusion³ has stated that "there is strong evidence that pensioner households appear particularly likely to ration fuel use – for example by under-heating bedrooms and turning off heating for some of the daylight hours" because of affordability issues. The research also suggests that in order to reduce the amount of fuel used older people cut back on the number of cooked meals and in some instances go without lighting. Additionally, pensioners will reduce the amount of food they eat in order to cut down their food budget to pay for heating bills. The report cites other research which confirms that fuel rationing strategies are still being adopted.

¹ Comparative costs sourced from Consumerfocus website 6 April 2010 comparing tariffs available in Glasgow area to NI. NI tariffs sourced from NIEE based on electricity usage 3300kWh.

² IPPR and NEA (2010) "The Long Cold Winter: Beating Fuel Poverty"

³ Centre for Economic and Social Inclusion (2008) *Cold Comfort: A Review of Coping Strategies Employed by Households in Fuel Poverty*

“...frugal attitude to fuel use...central heating was still turned off for several hours in winter daytime and the bedroom unlikely to be heated.”

Reports of pensioners restricting themselves to a single room for many hours of the day:

“An older lady restricted herself to the lounge which she heated at the cost of doing her housework”

“Another strategy for cutting costs mentioned by a couple of older people was only to have the heating on in one room and to close the doors to the rest of the house. Some felt that such an approach was still necessary even since the Winter Fuel Payment because of the particularly high setting that they needed the heating on in order to feel warm.”

Cold Comfort: A Review of Coping Strategies Employed by Households in Fuel Poverty

There are also health risks associated with cold and damp homes, a symptom of fuel poverty, that can be particularly devastating to older people.

Health Risks	Effect
Increased respiratory illness Worsening asthma and COPD	People with asthma are 2 to 3 times more likely than the general population to live in damp homes. Temperatures below 16C are thought to lower resistance to respiratory infection. Damp leads to growth of moulds and fungi which can cause allergies and respiratory infections. The cold impairs lung function and is an important trigger of broncho-constriction in asthma and COPD.
Increases blood pressure and risks of heart attacks and strokes	Blood pressure rises in older people with exposure to temperatures below 12C. The risk of heart attacks and strokes increases with increasing blood pressure.
Worsening arthritis	Symptoms of arthritis, particularly pain, become worse among people who live in cold damp homes
Increased accidents at home	Having a cold home increases the risk of falls in the elderly and the risk of accidents due to loss of strength and dexterity in hands and due to open or freestanding heating. Finger strength and manual dexterity fall progressively in temperature from 24C to 6C
Increased social isolation	People may become more socially isolated due to economizing and reluctance to invite friends into a cold home. Increased social isolation is a risk factor for depression and coronary heart disease.

Health Risks	Effect
Impaired mental health	Damp housing is associated with increased mental health problems.
Adverse effects on children's education	Home energy improvements have led to an 80% decrease in the rate of sickness absence from school for children with asthma and recurrent respiratory infections. In many cold homes only one room is heated which causes difficulties for children doing homework. Loss of education can lead to loss of job opportunities for life, itself being a risk of early mortality.
Adverse effects on nutrition	Homes in fuel poverty have a choice between keeping warm and spending money on other essentials. Poor diet can be the result with increased long-term health risks of cancer and coronary heart disease.

Source "Fuel Poverty + Health A guide for primary care organisations, and public health and primary care professionals" - National Heart Forum, the Eaga Partnership Charitable Trust, the Faculty of Public Health Medicine, Help the Aged and the Met Office

Age NI are pleased to see that the Utility Regulator has specific regard to older consumers and in light of the evidence above and we would encourage the continued special regard for this group of vulnerable consumers.

What role can the Utility Regulator play?

Age NI is mindful of the statutory role of the regulator and the restrictions with regard to its role in addressing fuel poverty. However, section 45 of the document, referencing the GB Energy Bill, suggests potential legal challenge to an affordability scheme in Northern Ireland. We would seek further clarification on why this would be the case given that GB energy companies were instructed to increase voluntary social spend in the 2008 budget and they complied with 83% of that spend being directed towards social tariffs⁴. Could a process instructing utility companies to increase spend on voluntary social programmes not be replicated in Northern Ireland?

⁴ OFGEM (2009) Monitoring Suppliers' Social Programmes 2008-2009
http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Monitoring_suppliers_social_spend_2008_09_final.pdf

With regard to the proposed three stage approach to the affordability debate, Age NI supports this approach but would caution against excessively long lead times with regard to the project. Any momentum which is achieved through the consultation process needs to be maintained and used to progress the debate and to develop an affordability solution for vulnerable consumers.

Stage 1 Key Issues

With regard to the scope and purpose of an affordability intervention while we understand how daunting the prospect of attempting to tackle fuel poverty is, it must not prevent action to help vulnerable customers now. Age NI agrees that fuel poverty is a wide problem but we see these first steps in developing an affordability intervention as part of a basket of measures, including but not restricted to energy efficiency and benefits maximisation, which will be required to act together to alleviate fuel poverty.

We are concerned that many of the comments relating to the development of an affordability intervention are focussed on electricity. The Utility Regulator has rightly pointed out that the majority of households use home heating oil for space heating however as this is not under the remit of the Utility Regulator we would urge consideration of an affordability policy on those sources of energy which can currently be influenced. Given that the Northern Ireland Housing Executive (NIHE) installed natural gas systems where available via the Heating Replacement Programme as it complied with government policy to promote gas at that time⁵ and the fact that 58% of NIHE tenant households have at least one person with a disability or long term illness⁶, and 42.5% have a household income of less than £10,400 per annum it is incumbent upon government and agencies to work to develop a strategy to help with energy affordability for consumers.

The Utility Regulator has provided a table that gives an example of how much per annum other customers would have to pay for a scheme to help vulnerable households. Age NI appreciates efforts made to put a figure to this but believes it is a pre-emptive move before any agreement has been made on how this should be funded or what format any

⁵ <http://www.niauditoffice.gov.uk/pubs/reports/2004/GasHeating/FullReport.pdf>

⁶ http://www.nihe.gov.uk/continuous_tenant_omnibus_survey_annual_report_2008_november_2009_.pdf

affordability intervention should take. It is suggested later in the paper that alternative sources of funding have been rejected and that any affordability tariff should be funded by cross-subsidy. We would urge the Utility Regulator to provide a more detailed discussion on why energy companies have been excluded as a potential source of funding indicating if generators or mutualised utility companies have been considered as a potential source for funding. We would also ask if any further research on alternative funding sources such as a hybrid of cross-subsidy or government funding has been investigated. We would wish to have seen evidence of alternative affordability interventions that have been introduced in other places such as those in Belgium, Italy and France and an analysis of how successful they have been and how much they have cost.

We have identified some example of schemes in Europe for supporting vulnerable consumers with their energy costs (see below)⁷.

Country	Social Inclusion Measures via income support or tariffs	Description
Belgium	Social Tariffs	Preferential rates for electricity and gas regularly set by ministerial order. Beneficiaries of these specific social tariffs are called “protected customers”.
Denmark	Heating Costs	General housing benefit available and a system of cash benefits which may cover costs for heating. Assistance given to pensioners for heating.
France	Solidarity Energy Funds (FSE)	Financial assistance for vulnerable households who are unable to pay energy bills. Jointly funded by local and central Government, National Unemployment Agency and the voluntary sector. Annual budget E46m.

⁷ ESRI <http://www.esri.ie/UserFiles/publications/20081110114951/WP262.pdf>

Country	Social Inclusion Measures via income support or tariffs	Description
France	Social electricity tariff - French Health Agency (CAM)	Households with annual income less than E5,520 (E460 per month) can receive a 30% reduction for an individual or a 50% reduction for a couple with two children or more for the first 100 kWh per month.
Finland	Social Welfare	Energy bills are one of the acceptable items in the last resort social assistance
Germany	Social Welfare	Households dependent on social welfare can receive costs for accommodation and heating from their social welfare office.
Greece	Discount Tariff	A discount tariff is granted to families with three or more children.
Hungary	Subsidies	Subsidies vary according to household income (four eligible categories) and number of occupants.
Italy	Social Tariffs - National Authority for Energy (AEEG)	Preferential charging for electricity consumption (fascia sociale). Current tariffs favour households with low energy consumption rather than low income. The National Energy Deliberation law in the gas sector allows each municipality to create a 1% levy (contributo sociale) on the distribution rate that is used to cover the costs for the poor and other vulnerable households.
Lithuania	Social Welfare	State support for low income families to ensure that no more than 20% of income is spent on central heating expenses.
Luxembourg	Heating Allowance	Part of social security and housing benefit for low-income households.
Romania	Winter Heating Allowance	Minimum wage families receive monthly allowances from 1 November to 31 March for house heating.

Age NI would also like to see consideration of the Energy Rebate Scheme which is being run ahead of the introduction of the mandatory social price support scheme. This scheme will pilot a new data-sharing project between the DWP and energy suppliers to help improve targeting of fuel poverty programmes, using powers granted by the Pensions Act 2008 to share data on Pension Credit customers for the purpose of reducing their risk of fuel poverty.

The Energy Rebate Scheme will provide energy suppliers with access to data on their customers who are aged 70 or over and in receipt of the Guarantee Credit element of Pension Credit. It is proposed that eligible households will receive a discount of £80 on their electricity bills. This measure will benefit some 250,000 households and will cost suppliers around £20m. Although the proposed discount arrangement will exclude households who would otherwise be eligible but who are currently benefiting from a voluntary social tariff from their energy supplier a recent report from IPPR and NEA recommends that eligible customers should be able to receive both these forms of assistance.

The paper appears to have concentrated on an “affordability fund” concept and does not provide information on social tariffs, which have been used in GB and other countries. As part of the second stage of the process, Age NI would like to see a fuller investigation and analysis of all potential schemes which may help with affordability for vulnerable customers.

A key issue with regard to a consumer cross-subsidy method of funding is ensuring that such a measure does not prove to be regressive i.e. that it does not push those households on the cusp into fuel poverty and thus exacerbating the problem.

Additionally we would wish to see a cost-benefit analysis of any proposed affordability intervention that included the implications for the NHS. In 1994 Brenda Boardman indicated that the NHS spent £1billion every year on treating the consequences of fuel poverty⁸. In 2005 the NEA estimated this amount to be £45million⁹ for Northern Ireland.

⁸ Dr Brenda Boardman and Sandra Hutton, The Watt Committee on Energy, 1994

We would recommend that for stage two of this project a cost-benefit analysis indicating how much it would cost to introduce an affordability intervention and what the benefits would be not only in terms of reduced costs to the NHS but also to individual quality of life. Age NI would propose that given the implications that fuel poverty has on health and the repercussions for the health budget that DHSSPS should be a partner in developing an affordability intervention for vulnerable consumers.

Who should benefit?

Age NI recommends that older consumers in receipt of Pension Credits would be the ideal first level for receipt of an affordability intervention. Not only are older consumers most likely to be in fuel poverty (more than one-half (56%) of households headed by an older person (75 plus) were in fuel poverty in 2006 and more than three-fifths (62%) of lone older households were fuel poor¹⁰) but the mechanism of pension credits would allow accurate targeting. Additionally, according to research conducted by the Utility Regulator and the Consumer Council for Northern Ireland, there is evidence that providing financial support to older consumers would have most support among Northern Ireland consumers. The research indicated that 64% of Northern Ireland consumers believed that a reduced tariff based on personal circumstances (social tariff), should be available to those having difficulty paying their energy bills and nearly everyone surveyed (97%) agreed that both the elderly and the disabled or chronically sick should receive help from their gas and electricity suppliers if they are having difficulty paying their bills.

Likely Issues for Stage 2

Regarding the issues for stage 2 of the process Age NI appreciates that the Utility Regulator is already looking to the future of this project. We agree with the Utility Regulator that these issues will require addressing in detail at that stage. Initial comments would be that we would have concerns over using consumption level as a proxy for vulnerability as those most vulnerable may be in houses with poor energy efficiency, may be at home all day due to illness or mobility issues or may require additional heat or energy requirements due to medical conditions. We would agree that we cannot design a social scheme around environmental criteria.

⁹ www.wellnet-ni.com/.../fuel_poverty_and_how_it_is_being_tackled_in_ni.ppt

¹⁰ NIHE House Condition Survey 2006

Conclusion

Age NI commends the Utility Regulator for initiating this debate and we are encouraged by the steps taken to date but we are concerned about some of the gaps in the analysis. Affordability policy for vulnerable customers needs to be developed urgently. Age NI agrees that affordability, whether in the form of a social tariff or a fund will not eradicate fuel poverty but will mitigate the impact of increased energy prices. It should be pursued as part of a fuel poverty strategy which includes energy efficiency measures and benefit uptake schemes. We believe that there needs to be a collaborative approach to developing an affordability policy and intervention and look forward to working with the Utility Regulator to develop and implement a scheme.