



speaking from experience

Assisting with Affordability Concerns for Vulnerable Energy Consumers

A Utility Regulator Consultation Paper

April 2010

Background

Age Sector Platform (ASP) welcomes the opportunity to respond to the Utility Regulator's consultation on Assisting with Affordability Concerns for Vulnerable Energy Consumers. Age Sector Platform was established in December 2007 as a company limited by guarantee to campaign and lobby for older people in Northern Ireland. The organisation has emerged from the Age Sector Reference Group (ASRG) which had been in operation for seven years supported by Help the Aged in Northern Ireland and Age Concern Northern Ireland (now Age NI). Age Sector Platform has a membership base of 29 older people's organisations and networks which represent approximately 200,000 older people across Northern Ireland.

Age Sector Platform's 'Can't Heat or Heat' campaign calls on Government to help older people cope with the high cost of living. These demands include that Government establish the link between the state pension and average earnings immediately, increase the winter fuel payment to £500 and ensure that pension credit is automatically paid for a period of three months as a way of increasing benefit uptake. It also calls for the introduction of social tariffs as a means of helping older people to get out of fuel poverty.

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 Sector Platform's response may address issues that are not covered specifically in the questions raised and therefore our response is not presented in the format of answering each question.

Executive Summary

- Age Sector Platform welcomes this initial work examining affordability issues for vulnerable energy consumers and would encourage NIAUR to ensure momentum is maintained for this project.
- It is essential that in developing an affordability tariff, consideration is given to the specific requirements of older consumers given the health implications of fuel poverty which can be particularly devastating for this group. For this reason we propose that older consumers in receipt of Pension Credit would be the ideal first level for receipt of an affordability intervention.
- Age Sector Platform acknowledges that an affordability intervention will not on its own alleviate fuel poverty but should be seen as a part of a series of measures implemented to help households unable to maintain a reasonable level of heat. Any intervention needs to look at not electricity bills but also natural gas. While not currently within the remit of NIAUR, home heating oil should also be included in the development of an affordability intervention for vulnerable energy consumers.
- Projections provided by NIAUR on potential costs may be somewhat premature as the discussion is currently focusing on whether or not affordability concerns should be addressed, what form they should take and who should benefit from them. However, we must ensure that payment for any affordability tariff does not force households further into fuel poverty. Programmes and tariffs provided in countries in Europe should be examined to see what interventions exist, how they are paid for and how they are administered.
- Age Sector Platform wishes to see an affordability intervention which 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 that Government, energy companies and the Community and Voluntary Sector should work together closely to achieve this.

Background and Context

Age Sector Platform 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’ 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 the 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 Sector Platform 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

¹ Comparative costs sourced from Consumer focus 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*

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.

“...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, which can be particularly devastating to older people.

Health Risks	Effect
<p>Increased respiratory illness</p> <p>Worsening asthma and COPD</p>	<p>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 bronchoconstriction in asthma and COPD.</p>
<p>Increases blood pressure and risks of heart attacks and strokes</p>	<p>Blood pressure rises in older people with exposure to temperatures below 12C. The risk of heart attacks and strokes increases with increasing blood pressure.</p>
<p>Worsening arthritis</p>	<p>Symptoms of arthritis, particularly pain, become worse among people who live in cold damp homes</p>

Health Risks	Effect
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.
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 Sector Platform is 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 Sector Platform 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 a 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?

With regard to the proposed three stage approach to the affordability debate Age Sector Platform 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 development of 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 Sector Platform 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 focused 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

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

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

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 Sector Platform appreciates efforts made to put a figure on 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 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 and indicate 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.

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

Country	Social Inclusion Measures via income support or tariffs	Description
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.
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.

Country	Social Inclusion Measures via income support or tariffs	Description
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 Sector Platform 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 Sector Platform 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.

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 Sector Platform 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?

As representatives of older consumers Age Sector Platform 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 older people and the disabled or chronically sick should receive help from their gas and electricity suppliers if they are having difficulty paying their bills.

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

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

¹⁰ NIHE House Condition Survey 2006

Likely Issues for Stage 2

Regarding the issues for stage 2 of the process Age Sector Platform 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 an environmental criteria.

Conclusion

Age Sector Platform commends the Utility Regulator for initiating this debate and we are encouraged by the steps taken to date but are concerned about some of the gaps in the analysis. Affordability policy for vulnerable customers needs to be developed urgently. Age Sector Platform 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 Utility Regulator to develop and implement a scheme in the near future.

Age Sector Platform Members

- Age Concern Help the Aged, Northern Ireland
- ALLY Foyle
- Amicus Retired Member
- AT&GWU Retired Members Association
- Carers NI
- Castlereagh Lifestyle Forum
- Chinese Welfare Association
- Civil Service Pensioners' Alliance (CSPA)
- Communications Workers Union (NI Regional Retired Members)
- East Belfast Seniors Forum
- Engage with Age
- Friendship Federation
- GMB Retired Members
- Greater Shankill Senior Citizens' Forum
- Indian Community Centre 50+ Club
- National Federation of Post Offices & BT Pensioners
- Newry and Mourne Senior Citizens' Consortium
- Newtownabbey Senior Citizens' Forum
- NIC ICTU Retired Workers Committee
- North Belfast Senior Citizens Forum
- Northern Ireland Pensioners Convention
- Northern Ireland Public Service Alliance (NIPSA) Retired Members Association
- Older Women's Network
- Pensioners Actively Lobbying Services (PALS)
- Public Commercial Services Union (Associate and Retired Members)
- Sperrin Lakeland Senior Citizens' Consortium
- UNISON Retired Members
- University of the Third Age (NI)
- West Belfast 50+ Forum

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