



The Consumer Council

Response to the Utility Regulator's
Consultation on

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

April 2010

The Consumer Council

The Consumer Council for Northern Ireland welcomes the opportunity to comment on the Utility Regulator's consultation paper 'Assisting with Affordability Concerns for Vulnerable Energy Consumers'.

The Consumer Council's role is to give consumers a voice - and to make sure that voice is heard by those who make decisions that affect consumers. The Consumer Council was set up by statute in 1985, as a Non-Departmental Public Body, to promote and safeguard the interests of all consumers in Northern Ireland.

The Consumer Council has certain specific responsibilities for energy, passenger transport, and water.

Introduction

Persistent fuel poverty in the 21st century is unacceptable.

In Northern Ireland, today, one in two households cannot afford to adequately heat their home. Fuel Poverty has reached crisis proportions; which is being further exacerbated as the Northern Ireland Executive is struggling to meet their fuel poverty targets and objectives.

Since devolution, the responsibility for eradicating Fuel Poverty lies solely with the Northern Ireland Executive as a whole. Unlike in England, Wales and Scotland there is no formal legislative basis for the eradication of fuel poverty in Northern Ireland. The Department for Social Development's current Fuel Poverty strategy '**Ending Fuel Poverty – A Strategy for Northern Ireland**' aims to eradicate fuel poverty in vulnerable households by 2010 and in all households by 2016. At current fuel poverty rates and levels of ambition these targets will unfortunately not be achieved.

The facts around fuel poverty in Northern Ireland, do not make pleasant reading:

- In 2009, there were over 1,000 excess winter deaths here many of which were attributable to fuel poverty¹.
- Households in Northern Ireland spend £380 a year more on energy as compared to the rest of the UK².
- 72 per cent of households here rely on home heating oil to heat their homes³ and face energy bills almost £200 more than those households that use gas⁴ for their heating.
- With fuel poverty levels so high in Northern Ireland and affecting around 343,000 households, it would take another 35 years to solve fuel poverty through the Warm Homes Scheme.

Recommendations

The Consumer Council has recently declared “War on Fuel Poverty”, and set out that the Northern Ireland’s Executive’s current approach to tackling fuel poverty lacks ambition and imagination. We have called on the NI Executive to:

- Make tackling fuel poverty a priority and restate its commitment to eradicating fuel poverty by 2016;
- Develop a fully costed road map as part of the up coming Fuel Poverty Strategy;

¹ NISRA

² Family Spending Survey

³ 2006 House Condition Survey

⁴ Figures from Phoenix, NIE and Consumer Council NI Oil Price Comparison, February 2010 based on estimated average annual oil consumption of 2x 900litres @ £367.91 per 900 litres = £735.82

- Work with energy suppliers and generators to create mandated social support schemes/tariffs for all disadvantaged energy consumers to make fuel bills affordable for those in fuel poverty;
- Develop the Warm Homes Scheme on the basis of the Kirklees approach so that it improves all dwellings in Northern Ireland to an adequate standard of energy efficiency performance;
- Introduce a Boiler Scrappage Scheme akin to the one currently in place in Great Britain. The Energy Savings Trust believes that an average home in Northern Ireland could save up to £210 on energy bills a year by replacing an old inefficient boiler with an A-rated condensing boiler with a full set of heating controls;
- Call on the Utility Regulator to increase the safeguards on consumers who are in fuel poverty and ensure that the gas and electricity industries are as efficient as possible;
- Examine whether regulation of the home heating oil industry can provide heating oil consumers with the necessary levels of support and price safeguards that will help those who are in fuel poverty.
- Ensure heating oil consumers are paying a fair price for their heating oil, especially those using emergency heating oil drums.
- Introduce a national smart metering programme. Trials have shown that smart meters can help consumers make a 10 per cent reduction in their energy consumption⁵.
- Introduce a nationwide energy brokering scheme, which gives Housing Associations or Community Groups the power to bulk buy and/or broker energy deals for their tenants/community.

⁵ Energy Savings Trust

- Ensure that “fuel poverty” funds that come via the Barnett formula are spent on fuel poverty initiatives within Northern Ireland.
- Make sure that people eligible for existing benefits/tax credits correctly claim them.
- Call on the UK Government to take proper account of the high cost of energy in benefits, pensions and tax credits.

Utility Regulator Consultation Questions

1. Are there any additional key context issues that should be noted?

In developing an adequate response to the levels of fuel poverty in Northern Ireland the following points need to be made:

- Gas prices have increased from £340 in 2003, to £448 in 2010 for the average user⁶. This is an increase of 60 per cent between 2003 and 2010 and included a period of higher prices (in excess of £650 for an average user) during 2008 and 2009.
- Electricity prices in Northern Ireland have increased too, albeit at a slower rate. In 2003 the average annual electricity bill was £324 increasing to £496 in 2009⁷. This represents an increase in the same period of 53 per cent.
- Households in Northern Ireland are spending £380 a year more on energy compared to the rest of the UK⁸.
- In Northern Ireland 72 per cent of households rely on home heating oil to heat their homes, (rising to 89% in rural areas)⁹. Households using

⁶ Based on the Phoenix Gas figure for average consumption for 3 bedroom standard house of 12,377 Kwh per annum on standard credit

⁷ Based on NIE standard tariff at average consumption of 3,300 Kwh per annum

⁸ Family Spending Survey

home heating oil face energy bills almost £200 more than those households that use gas¹⁰. The Home Heating Oil market in Northern Ireland is unregulated. Unlike natural gas or electricity the price of oil can fluctuate daily depending on global events. No measure to tackle fuel poverty can ignore the role and prominence heating oil plays in Northern Ireland's domestic energy markets.

- Although the domestic energy market has been open to competition since 2007, consumers have little to no choice over their energy supplier. In comparison, households in Great Britain can choose their supplier and have been fortunate to benefit from lower electricity prices. The Consumer Council believe that competition, if designed correctly, can be a key mechanism in delivering lower prices to consumers. However, to be viable competition must improve the customer experience for all consumers, including the most vulnerable. No consumer should be worse off as a result of competition and the price of energy must not increase due to measures taken to introduce competition.
- In 2008 Douglas McIlldoon produced his report, 'Northern Ireland Electricity Consumers – Orphans in the Energy Storm'. It concluded that 'electricity prices are higher than they need to be because policy is confused and contradictory'. He identified a number of issues that needed addressing:
 - The conflict between the policy goals of tackling fuel poverty and increasing renewable energy;
 - A 'double whammy' of over rewarding electricity generators whilst at the same time increasing risk for investors and thereby inhibiting new investment in electricity generation;

⁹ 2006 House Condition Survey

¹⁰ Figures from Phoenix, NIE and Consumer Council NI Oil Price Comparison, February 2010 based on estimated average annual oil consumption of 2x 900litres @ £367.91 per 900 litres = £735.82

- The unfair allocation of risk between NIE Energy and the customer.
- The Warm Homes Scheme is the Northern Ireland's Executive's main tool in tackling fuel poverty. The annual budget for the Warm Homes Scheme is £20 million and since its inception in 2001, some 70,000 insulations have taken place. Even if targets were met, it is only budgeted that 10,000 homes per year will benefit from this scheme. With fuel poverty levels so high in Northern Ireland and affecting around 343,000 households, it would take another 35 years to solve fuel poverty through the Warm Homes Scheme.

During November 2009, the Consumer Council undertook a series of eight Consumer Panels across Northern Ireland in which we asked consumers views on how best to protect the most vulnerable people in society from fuel poverty. The following quotes from these panels highlight the plight of some households suffering from fuel poverty:

"My husband's aunt, we would go to visit her in the evening, she had two little dead coals in the fire and that was it but Andrew would say to me 'mummy I'm freezing'. I would bring her soup and she would make that soup last a whole week. She was just conserving all the time and one day we found her then and she had hypothermia."

"So my house, everybody says my house is cold, we would put another jumper on rather than put the heat on but I would like to honestly have the house warmer than it is but I am conscious of how much it costs to heat it"

2. **Comments are welcome on the potential and appropriateness for an expanded statutory remit for the Utility Regulator to allow regulatory mechanisms to potentially tackle affordability issues.**

Social policy, including policies tackling fuel poverty, is an issue for Government and must be shaped and directed at that level with all stakeholders feeding into the development of such policies.

The Northern Ireland Executive must take full responsibility for its role in developing fuel poverty strategies that will eradicate fuel poverty by the current target of 2016.

Currently, the Utility Regulator's mission is "*Value and sustainability in energy and water*". The Consumer Council believe that fuel poverty is central to this mission, and therefore the Utility Regulator has a vital role in ensuring the regulatory framework produces the best possible deal for consumers.

The consultation itself recognises the limited power the Regulator has to mandate and implement a social tariff. The issue of cross subsidisation demonstrates a legal obstacle to the Regulator. However, this only serves to emphasise the role the Northern Ireland Executive has in providing clear targets to eradicate fuel poverty and by providing the relevant agencies; including the Utility Regulator; with the means to do so.

As the Utility Regulator, Iain Osborne recently stated at the ETI Committee that fuel poverty "is a political question, it is not a technocrats problem, given the desire it can be done"¹¹.

It is therefore vital that the Northern Ireland Executive restates its commitment to eradicating fuel poverty by 2016 and sets out a fully costed road map as part of the Fuel Poverty Strategy to clearly show how this will be achieved.

Obviously, the Utility Regulator has an important role in achieving these targets and we see this as being to:

¹¹ ETI Committee 11.3.10

- Provide detailed research evidence and forecast costs that enable the Northern Ireland Executive to make an informed decision on social tariffs a matter of urgency;
- Increase the safeguards on consumers who are in fuel poverty and ensure that the gas and electricity industries are as efficient as possible;
- Monitor the implementation and impact of a social tariff scheme; and
- Examine whether regulation of the home heating oil industry can provide heating oil consumers with the necessary levels of support and price safeguards that will help those who are in fuel poverty.

3. Comments are welcome on the suggested staged approach to affordability policy/scheme development.

The three stages identified in the consultation are acceptable in so far as they identify steps that need to be taken. However, there needs to be a clear indication as to who will take those steps and how they will be taken forward. We believe this is clearly an issue for the Northern Ireland Executive to take the lead on, as in Great Britain; the Government has lead on the implementation of mandatory social tariffs.

The NI Executive must as a matter of urgency make a decision on social tariffs, identify a source of funding and task officials with proposing a workable mechanism for delivery. In so doing, the forthcoming consultation on the Department of Social Development 'Fuel Poverty Strategy' must clearly demonstrate the Executive's commitment to eradicating fuel poverty by 2016. It needs to provide fully costed proposals on social tariffs and how fuel poverty can be eliminated.

4. Have we identified the appropriate key Stage 1 questions/issues?

As a first stage it is essential that the Executive sets out its objective and determination to eradicate fuel poverty by 2016 in Northern Ireland. This will involve providing leadership and allocating the appropriate resources to the task.

The key issues identified in the consultation are relevant and will need to be addressed. However, they must not be seen as insurmountable, or even convenient, obstacles to eradicating fuel poverty.

Fuel poverty is a complex issue; but doing nothing is not an option, and the best cannot become the enemy of the good.

5. Comments are welcome on 'scope and purpose' questions/issues. Should any policy intervention be aimed at affordable warmth in the round or at a more limited problem such as electricity affordability and anxiety about bills?

The purpose of a social tariff is clear; it must contribute towards eradicating fuel poverty in Northern Ireland, and therefore any policy must be focused on affordable warmth.

The vast majority of homes in Northern Ireland use heating oil to provide heat and warmth to their homes. As the fluctuating price of heating oil does not reflect that of electricity; social tariffs in the domestic electricity market, although welcome, cannot be seen as a panacea for tackling fuel poverty and the helping households to heat their homes.

The home heating oil industry is currently unregulated and vulnerable customers do not enjoy the same level of price safeguards and support that customers in the regulated natural gas and electricity markets do. The Consumer Council believe that it is time for the Northern Ireland Executive to examine whether regulation of the home heating oil industry can provide the

necessary levels of support and price safeguards that will help those who are in fuel poverty. However, the unregulated nature of oil must not prevent urgent action being taken within the regulated markets of electricity and natural gas.

Fuel poverty affects people with a wide range of characteristics. There are a number of factors that are prevalent amongst those in fuel poverty that we would expect to see in other poverty indicators. For example, of households in fuel poverty 75% have incomes below £7,000 per annum, 55% are headed by an unemployed person, 51% contain a person who is long term sick or disabled and 48% were lone parent households. However, there are other factors which are likely to be more prevalent in fuel poverty such as of fuel poor households 54% are in homes built before 1919, 75% are in the private sector (44.1 % in the private rented sector and 31.8% in the owner occupier sector), 43% live in isolated areas and 26% have incomes between £15,000 and £20,000 per annum¹².

This indicates the complex nature of the causes of fuel poverty- the interaction between income, energy prices and household energy efficiency. In order to address all three elements it is important that a social tariff is provided as part of a package of measures. This could include energy efficiency measures and energy efficiency awareness, benefit take up initiatives and Charitable Trust funds.

In 2008, the Consumer Council undertook joint research with the Utility Regulator (NIAUR) into consumers' views on initiatives by energy suppliers to help disadvantaged and vulnerable customers¹³. The research found:

- 78% of respondents thought that the elderly, disabled or chronically sick should receive financial help from their gas or electricity supplier;

¹² HECA Report 2008

¹³ Research into consumers' views on initiatives by energy suppliers to help disadvantaged and vulnerable customers

- 64% of respondents thought that a reduced energy bill based on personal circumstances should be available for people who have difficulty paying energy bills.

This indicates an appetite amongst consumers to assist those groups with particular characteristics with financial assistance.

The consultation document helpfully provides a table that shows the cost of providing assistance at various levels. However, in order for the NI Executive to make a decision in principal on the introduction of social tariffs there is an urgent need for more detailed and costed options to be prepared.

The Table below compares the cost of a social tariff scheme with that of other schemes aimed at tackling fuel poverty through financial assistance.

Scheme	Cost	Households assisted	Level of assistance
Consultation estimated Northern Ireland Social Tariff scheme	£20m	100,000	£200 per year
Northern Ireland One off fuel Payment (April 2009)	£22.5m	150,000	£150 one off payment
Winter Fuel Payment	£68m	287,000	£250/400
GB Social Tariffs	£130m	800,000	Vary but must at least equivalent to the cheapest standard tariff

6. Comments are welcome on the issues raised above in relation to the intended target size and scope of any intervention, size of fund required to deliver this, and impact on ‘paying’ customers.

7. Comments are welcome on policy funding questions/issues/ In the absence of additional new government funding, should any intervention on energy bills be paid for by all customers or a subset of customers?

The Northern Ireland Executive has a social responsibility to help those members of society who are in fuel poverty.

The Department of Social Development already allocates resources towards tackling fuel poverty through the Warm Homes Scheme. This scheme aims to tackle fuel poverty through improving energy efficiency and is a vital in permanently dealing with one of the three factors causing fuel poverty.

Although the Consumer Council has concerns about the effectiveness of the Warm Homes scheme and would like to see it re-engineered along the lines of the Kirklees scheme there must be no cut to the funds available for energy efficiency schemes – rather there needs to be a six-fold increase in the expenditure to this scheme if the Executive is to meet its target of eradicating Fuel Poverty by 2016.

The Northern Ireland Executive needs to ensure that funds that it receives for fuel poverty initiatives through the Barnett Formula are spent on fuel poverty initiatives within Northern Ireland.

In addition, it is the position of the Consumer Council that Energy Companies that make a profit from generating, distributing and selling fuel and power have a corporate social responsibility to their customers to provide support and care schemes to households that are struggling to heat their homes to adequate levels.

It is often argued that the main domestic energy suppliers are tightly regulated and financially have no leeway to invest or develop social tariffs for those in fuel poverty. The Consumer Council believe that there is a real opportunity to examine the whole supply chain within the energy market, which would include suppliers, importers, generators and transmission and distribution companies. A precedent for this in Great Britain where the levy for the

Community Energy Savings Programme (CESP) fell to both electricity suppliers and generators, and the planned Renewable Heat Incentive (RHI) which it is currently envisaged will place a duty on fossil fuel distributors and suppliers (natural gas, heating oil, LPG and coal companies).

More research is therefore needed to look at all the companies within the energy market in Northern Ireland, to see what role they can responsibly play in tackling the levels of fuel poverty that occur here.

A cursory glance shows that the combined turnover in 2009 of just five of the major players (Viridian, AES Corporation, DCC Energy, Premier Power, Phoenix Natural Gas) in the Northern Ireland energy market is almost £3bn¹⁴. A social tariff providing assistance of £100 per year to 100,000 fuel poor households would represent only 0.33% of this turnover.

The Consumer Council recognises that more affluent energy consumers could also be asked to contribute to funding a social tariff, through a system of cross subsidy. We believe this would not be ideal, as there would need to be some work undertaken to ensure that this levy was targeting the correct households, and not in turn putting more households into fuel poverty. If used in combination with other funding sources we believe that it may be possible to use some cross subsidy funding that would be a modest amount of spread across the whole customer base. The Consultation provides a Table which shows that to provide 100,000 fuel poor households with assistance of £100 would cost all other customers £14 per year on their bills. However, if this could be supplemented with equal contributions from energy companies and Government the cost to each customer would be less than £4.88 per year, or nine pence per week.

Joint research by the Consumer Council and the Utility Regulator in 2008 showed that most people thought that the Government and energy suppliers

¹⁴ Northern Ireland top 100 companies- Belfast Telegraph, April 2010

are primarily responsible for providing financial help for those in fuel poverty. (68% thought Government and 43% the energy companies)¹⁵.

The Consumer Council has recently commissioned Professor Paddy Hillyard to develop a workable 'Affordability Tariff' along the lines of the 'Water Affordability Tariff'. This is important work that will inform the detail stage of the process of introducing a social tariff.

8. Comments are welcome on the issue of which customers should be targeted for help (and why) and to what extent per annum.

Considerable time is spent debating definitions of the target group for social tariffs and eligibility for the same. However given the challenges of defining the groups it may be more useful to look at the eligibility criteria used successfully elsewhere. In Great Britain, energy companies choose a combination of age, income and benefits to define who is eligible. However we believe in Northern Ireland there should be one unified approach, so consumers in fuel poverty, regardless of their energy supplier know that they will be able to benefit from the social tariff schemes.

9. Can respondents identify a data set that would enable us to assess the risks to different customer groups of equating 'high user' with 'not vulnerable'?

10. What other household characteristics are associated with higher or lower electricity consumption?

11. Respondents' views are welcome on the issues raised in relation to an appropriate mechanism for the collection of funds.

The difficulties in targeting the fuel poor must not delay or create a reason for a lack of action in eradicating fuel poverty from Northern Ireland.

¹⁵ Research into consumers' views on initiatives by energy suppliers to help disadvantaged and vulnerable customers

Dr. Brenda Boardman in a recent presentation to the Utility Regulator stated that due to inaccuracies in targeting, that in Great Britain for every 10 households that were correctly targeted, a further 4 homes were also helped. If this was reflected in Northern Ireland, with around 50 per cent of households suffering from fuel poverty, a further 20 per cent of households would receive support from any social tariff scheme. We would therefore question if it was sustainable that 30 per cent of households cross-subsidise the energy bills of the remaining 70 per cent of households.

As previously pointed out, the full burden for social tariffs cannot just fall to households that are not suffering from the effects of fuel poverty; rather the Northern Ireland Executive and the Energy Industry as a whole, also have a role to play.

In Great Britain, the Department for Work and Pensions and the big six energy utilities are working on a pilot scheme designed to help 250,000 fuel-poor pensioners who are aged 70 or over and are in receipt of only the guarantee credit element of Pension Credit. Under this scheme the DWP will contribute post coded data on eligible individuals while the suppliers will provide their customer data in a bid to find matches through an independent third party. Where there is a match, those individuals will receive their next bill with an £80 rebate, If this trial is successful, the Government in Great Britain is keen to target other customer categories (although current legislation only allows for data-sharing involving pensioner households).

12. Views are welcome on need for enhanced energy efficiency advice for vulnerable households including size, resourcing and best-delivery options.

Social tariffs cannot solve fuel poverty by themselves; they have to be seen as part of a package. As the consultation recognises; Fuel Poverty is caused by three main factors:

- Energy cost;
- Energy efficiency: and

- Income Levels

Social Tariffs can help to lower the costs of the energy, but energy efficiency programmes (such as Warm Homes or a Kirklees area based type-model), and income related measures (such as benefit checks, debt advice, improving financial literacy, and the use of Trust Funds to provide assistance to customers who are in debt) all must be part of a complete package to eradicate fuel poverty in those households which are currently suffering from it.

13. Views are sought in the relative merits and disadvantages of helping the poorest energy consumers through a fund, or a tariff.

14. Respondent's views are welcome on the issues raised in relation to identifying eligible households.

15. We invite comments on an appropriate mechanism and potential costs for the disbursement of funds to eligible households.

The Consumer Council has previously suggested that there needs to be an examination of experience in other countries¹⁶. The Government in the Republic of Ireland operates a scheme which provides for free electricity and heating oil allowances for low income families.

16. We welcome respondent's views on the potential impact of affordability schemes on the retail market in Northern Ireland and the potential for competition.

The Consumer Council believe that any scheme should be market-neutral, which is a principle that is being applied in Great Britain through the Mandatory Social Price Support scheme.

¹⁶ Response to the Utility Regulator's Consultation on "NIAUR The Social Action Plan, 2009-14"

17. Comments are sought on the appropriateness of creating exit provisions in a scheme, and on how these might best be designed.

The provision of a social tariff scheme should only finish once every household within Northern Ireland has been lifted out of fuel poverty (The Northern Ireland's current Fuel Poverty strategy '*Ending Fuel Poverty – A Strategy for Northern Ireland*' aims to eradicate fuel poverty). The ending of individual assistance could only occur when the household has been lifted out of fuel poverty for a set period.

18. Comments are sought on the proposed assessment criteria for any scheme.

The aim of all social tariff schemes should be to contribute to the eradication of fuel poverty in Northern Ireland, and each scheme should be assessed on its ability to meet this goal.

Conclusion

Fuel Poverty is putting people's health and lives at risk in Northern Ireland. Social Tariffs, if designed correctly, can play an important role in helping to eradicate the unacceptably high-levels of fuel poverty which occur here. The Consumer Council welcomes the work the Utility Regulator has undertaken with this consultation. However, we believe that it is the role of the Northern Ireland Executive to urgently develop a coherent plan to eradicate fuel poverty by 2016; of which part, should be the development of mandated social tariffs.

For more information contact Richard Williams, Senior Consumer Affairs Officer.

Tel (028) 9067 4895

rwilliams@consumercouncil.org.uk