

Assisting with Affordability Concerns for Vulnerable Energy Consumers

NIAUR Consultation

NIE Energy Supply's Response

8 April 2010



Assisting with affordability concerns for vulnerable energy customers

NIE Energy welcomes the opportunity to respond to the NIAUR's consultation on affordability concerns for vulnerable energy customers. NIE Energy (NIEES) recognises that the issue of fuel poverty is extremely serious and one which will not easily be solved. We therefore would welcome a balanced debate on providing a sustainable form of assistance to the most vulnerable low income energy customers.

Context

NIEES would urge caution in following the GB approach without considering the significant differences between the two areas:

- NI has a predominance of oil (unregulated) as the main fuel for heating. This contrasts with gas in GB (regulated).
- Electricity and gas companies in NI are heavily regulated and earn modest profits (less than 2%) at a level decided by NIAUR which is subject to due consultation process. This is not the case in GB, where energy companies can earn net margins of over 5% as they are not restricted by 'price control'.

NIEES has already taken significant steps to assist vulnerable customers:

- We were the first energy company in the UK to remove standing charges – doing this proactively as a response to customer wishes (and not instigated by the Regulator)
- We were the first energy company in the UK to provide a discount for our pay as you go tariff (keypad). Again, NIE Energy took this step ahead of the market and any regulatory encouragement.
- We manage a range of energy saving schemes for vulnerable customers (funded either by shareholders or through the NISEP). Many of our pioneering schemes have been used to inform government policy.
- We developed and manage the 'For Your Benefit' programme on behalf of Northern Ireland Electricity, providing benefit entitlement checks for many low income customers.

NIAUR's role

NIEES is concerned that the Regulator's paper seems to suggest that both:- electricity costs are a significant cause of fuel poverty; and that electricity customers should bear the price of providing assistance to vulnerable customers.

As noted above, oil is the main fuel for heating in NI (and accounts for the majority of household energy expenditure). We do not believe that electricity customers should pay increased electricity bills to subsidise the high costs of other fuels. Less than 4% of homes in NI use electricity for heating.

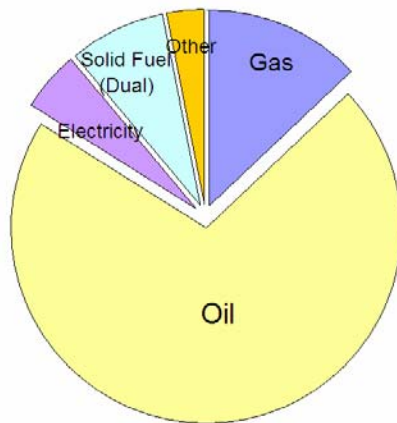
NIAUR will also be aware of potential requirements to upgrade electricity networks and pay for new metering technology – all of which will place upward pressures on electricity costs for customers.

By suggesting that electricity customers should pay higher bills to create a fund to be distributed to those selected vulnerable customers will put borderline (additional) households into fuel poverty. We would urge NIAUR to give this issue serious consideration under their 'protecting vulnerable customers' duties.

Stage 1: Key issues

What problem are we trying to alleviate?

NIEES would like to bring some balance to the debate. There appears to be a regulatory view that electricity is a major cause of fuel poverty and that it is the most volatile. NIEES disagrees with both of these views – the last number of years has seen unprecedented volatility in all energy prices on a global scale (these are not issues only for NI). Oil is the main fuel for heating in NI and, as the chart below illustrates, is where customers spend the most money on energy. To ignore this issue because it is too difficult does not help to provide a balanced debate.



Income is probably the biggest cause of fuel poverty. NIEES' recent experiences with the For Your Benefit programme has highlighted that a modest expenditure on a benefit entitlement check and help with the appropriate claim forms (costing less than £100) can lead to an additional c£2,000 per year (c£38 per week) for a claimant. This would more than cover even an inefficient home's energy costs for a year. This type of intervention provides a sustainable form of support for the vulnerable customers when combined with suitable energy efficiency packages.

The winter fuel payment is also very helpful for many low income elderly households, although NIEES does share the concerns of the Fuel Poverty Advisory Group that it is not well targeted. Refocusing this fund to the recipients of Cold Weather Payments may be a more appropriate form of targeting as this group is already identified by government as requiring assistance.

Sources of funding

Given the amount required to make a meaningful difference to those severely affected by fuel poverty, NIE Energy believes that the NIAUR needs to look wider than electricity customers to contribute to any fund. If some electricity customers had to subsidise the cost of electricity for a substantial proportion of other customers, this would negatively impact many who could ill afford to undertake such an additional burden, further compounding the numbers of households experiencing fuel poverty.

The cost of providing a £300 payment (either through a social tariff or another means) to the 34% of homes that are estimated as fuel poor in NI would be **c£76.5million per year**. This would lead to a c8-12% increase in electricity bills.

Fundamentally, if government decides that vulnerable customers should have access to subsidised energy, it needs to be able to allocate resources to it, and provide a mechanism which will gather it ultimately from the overall population through the taxation system and be flexible enough to cope with world energy price volatility.

NIE Energy as a business is heavily regulated with a net margin capped at less than 2% (compared to more than c5% in GB) and therefore does not have scope within its margin to subsidise customers directly.

Stage 2 issues

NIAUR's consultants proposed the concept of rising block tariffs. This may be beneficial from an environmental perspective (a carbon tax) but NIEES would be strongly opposed to this as there are many low income, high electricity users.

NIEES does not believe that energy companies, who do not have access to up to date benefit records, are the appropriate vehicle to provide subsidies to selected customers. The GB experience has shown that social tariffs have had little impact (according to Dr Brenda Boardman¹).

Summary

NIEES has outlined some key principles which we believe should be used in the development of any support mechanism:

1. Not putting more households into fuel poverty, or increasing the problem for borderline households (i.e. the working fuel poor who may not receive assistance through a support mechanism).
2. Flexible to be able to respond to significant fluctuations in energy prices and increased need.
3. Government led (access to up to date benefit records) and able to target those on the lowest incomes.
4. Avoid creating inequities in competitive energy retail markets.

¹ Dr Brenda Boardman, Emeritus Fellow, Environmental Change Institute, University of Oxford