Fuel Poverty Advisory Group
(for England)

Seventh Annual Report 2008

Contents

Executive Summary ........................................................................................................... 2

1. Key recommendations .................................................................................................. 5

2. Recommendations in detail ....................................................................................... 8
   1. Road Map .................................................................................................................... 8
   2. Affordability .............................................................................................................. 8
   3. Social Tariff .............................................................................................................. 9
   4. Income adequacy and welfare benefits ..................................................................... 10
   5. Warm Front Budget 2010/11 .................................................................................. 12
   6. Decent Homes Standard ......................................................................................... 12
   7. Home Energy Savings Strategy (HES) .................................................................... 13
   8. New Heating Technologies .................................................................................... 13
   9. Community Energy Saving Programme (CESP) .................................................... 14
  10. Prepayment tariff differentials ............................................................................... 15
  11. Smart Meters ........................................................................................................... 16
  12. Post Office Card Account (POCA) ........................................................................... 17

Conclusion ....................................................................................................................... 19

Appendix I

FPAG Membership ........................................................................................................... 20
Terms of Reference ........................................................................................................... 21

Appendix II

FPAG submissions to Select Committees and Departmental requests ......................... 21
Executive summary

The past five years have been a devastating period for fuel poverty. The Fuel Poverty Advisory Group (FPAG) estimates that 4 million-plus households in England were in fuel poverty as at September 2008. This compares with 1.2 million in 2004. Almost 50 per cent are pensioner households and 80 per cent are vulnerable in some way (National Energy Action 2009).

Fuel poverty exists through a combination of poor levels of energy efficiency, high energy prices and inadequate income. In 2007/08 there were 4 million children, 7.5 million working age adults and 2 million pensioners living below the poverty line. Meanwhile, Government estimates some £10 billion of means tested benefits remain unclaimed.

Average domestic dual fuel bills (gas and electricity) increased from £572 to £1,287 (an increase of 125 per cent) between January 2003 and September 2008. Non-gas fuel poor consumers (0.6 million) using kerosene or Liquid Propane Gas (LPG), incur costs 50 per cent and 90 per cent higher respectively than those for mains gas. Government figures for 2006 indicate around 2.7 million homes in England do not have mains gas.

FPAG recognises that the long-term trend for energy prices will be upwards, despite some recent falls. The first report of the Committee for Climate Change, estimates that the cost of measures to address carbon budgets will put another 1.7 million households into fuel poverty by 2022. Other commentators estimate increased industry investment, predominantly in new power stations, from £150 billion by 2020 (Ofgem) to £234 billion by 2025 (Ernst & Young) will also increase energy bills. Furthermore, the potential for gas prices to remain volatile with increasing imports from Qatar, Algeria and Russia, plus the price implications for non-gas consumers using kerosene and LPG, is also of concern.

The growth in unemployment will have a negative impact on fuel poverty levels even when compared to any positive impact arising from recent price cuts. Government statistics show that 38 per cent of the unemployed are fuel poor by the ‘full income’ definition, with 60 per cent fuel poor on the ‘basic income’ definition (Department for Business, Enterprise & Regulatory Reform, 2008, fuel poverty statistics – detailed tables for 2006).

The Government has made some positive announcements: the Heat and Energy Saving Strategy (HES), an increase in the energy companies’ social programmes, a 20 per cent uplift to the current Carbon Emissions Reduction Target programme (CERT), development of a new initiative, the Community Energy Saving Programme (CESP), an increase in Cold Weather Payments and a bringing forward of Warm Front’s budget. Although welcome, these are inadequate and further measures are required as part of a robustly co-ordinated and detailed plan, with key deliverables detailing by whom and when to be delivered, plus the precise funding detail to eradicate fuel poverty by 2016.
The Government has pursued its determination to secure a narrowing of the differential between prepayment and other payment methods for domestic energy consumers. Subsequently, Ofgem’s supplier probe unearthed a number of serious structural market issues which have led to some improvements in tariff equity between different consumer groups. Although a welcome development, FPAG remains of its view that prepayment inequity persists. The differential between an on-line dual fuel Direct Debit payer and a dual fuel prepayment consumer can be £180, rising to £255 per year in the worst cases (Ofgem May 2009).

The potential for escalation and volatility of energy prices in the UK’s increasingly gas dependant future, plus the industry’s significant investment plans, provides a compelling argument for urgent action to help alleviate the plight of the increasing numbers of households who are, and those that will be, in fuel poverty. Therefore a mandated and properly funded social tariff should be put in place to help those most in need together with a range of additional measures.

FPAG’s key recommendations to Government for making rapid progress in the short term:

**Prepare a ‘Road Map’**
To set out precisely what will be delivered to eradicate fuel poverty by 2016

**Understand affordability**
To anticipate the number of fuel poverty households, their issues and the measures required in a range of scenarios that reflect the transformational energy context ahead

**Mandate a Social tariff**
To ensure assistance to the most vulnerable households with their energy bills

**Income and benefits**
To ensure benefits are claimed and increased in line with real energy costs

**Warm Front budget 2010/11**
To ensure the budget is restored to at least 2009/10 levels and preferably more

**Decent Homes standard plus**
Specify a new standard to ensure affordable warmth

**Heat and Energy Saving Strategy (HES)**
To include a mandate for a SAP or EPC standard for all housing stock, including the fuel poor, and to be achieved by a specific date, targeting the fuel poor first

**New Heating technologies**
To commit to widespread trials of alternative and low carbon heating technologies for customers without access to mains gas

**Community Energy Saving Programme (CESP)**
To mandate transparency of its funding mechanism and reduce its regressive implications through alternative funding sources.

**Prepayment tariff differentials**
To address the prepayment tariff differential through price controls.
Smart Meters
To ensure all consumer implications of a smart meter future are understood plus the benefits the fuel poor can derive through engagement and equal opportunity

Post Office Card Account (POCA)
Develop a POCA type service to give the unbanked access to direct debit energy deals

Note
The diverse nature of the Group’s membership may, on some occasions, prevent unanimity on some of the points mentioned.
Key Recommendations

1. **Road map**

As a matter of urgency the Department of Energy & Climate Change (DECC) should prepare a ‘Road Map’ with milestones and ownership of the key tasks required to have eradicated fuel poverty by 2016.

Government has announced a range of welcome initiatives but these are inadequate in themselves. These initiatives together with additional measures should form part of an overall ‘Road Map’ and set out clear deliverables, by whom and when, and exactly how they will be funded. The ‘Road Map’ should then be developed through to 2020 and include the additional implications of climate change and carbon reduction targets.

2. **Affordability**

Initiate a detailed study to model a range of fuel poverty scenarios in this period of volatile prices and imported gas dependency together with the industry’s major investment plans.

The long-term trend for energy prices will be upwards. It is important for the consequences to be anticipated to enable appropriate remedial steps to be put in place and protect the vulnerable and poorest of society. A range of factors, such as security of supply, imported gas, low carbon objectives, power station construction and policy issues have the potential to create uncertainty in the energy markets, drive energy prices up and increase the numbers of households in fuel poverty.

3. **Social Tariff**

Mandate a social tariff funded through a Fuel Poverty Levy placed on all electricity and gas sold.

As pressure on the public purse diminishes, the fund should be increased through general taxation. The potential risk for prices to rise and the extent to which they do so, compared to the suppliers’ relief on offer, is inadequate. This is an important area of social policy and the Government should establish the means and the eligibility criteria. This responsibility should not be left for suppliers to resolve.

4. **Income adequacy and welfare benefits**

A step change in the process and number of benefit entitlement checks plus increases in the notional fuel element of benefits per se.

Benefit entitlement checks are a task for The Department for Work and Pensions, which will require sufficient resources to meet this challenge. In 2007/08 there were 4 million children, 7.5 million working age adults and 2 million pensioners living below the poverty line. Government estimates some £10 billion of means tested benefit remains unclaimed. Benefits must be paid at adequate amounts to reflect the real costs of household fuel and increased each year at rates fully commensurate with the rising costs of domestic fuel. Retail Price Index increases do not keep pace with the reality of energy price rises.
5. Warm Front budget

The Government will need to commit to at least the 2008/9 levels of expenditure and preferably at a considerably higher level and funded via general taxation.

The ‘Road Map’ will need to contain Warm Front post-2012 funding plans and strategies. This major public expenditure commitment has its current phase ending in 2011. Current Warm Front budget implications for 2010/11 will allow assistance to only 90,000 households compared to 215,000 households anticipated in 2009/10 and the 233,594 households actually assisted in 2008/9. A Government response to this issue is urgently required.

6. Decent Homes standard

Government should specify a ‘Decent Homes Plus’ standard.

The thermal comfort element of the current Decent Homes standard is judged by FPAG to be inadequate in providing affordable warmth to householders. Funding for the current standard programme will end in 2010. A ‘Decent Homes Plus’ standard using a more ambitious thermal comfort standard should be specified and accompanied by adequate analysis and levels of Government funding.

7. Heat and Energy Saving Strategy (HES)

Government to mandate the required Standard Assessment Procedure (SAP) rating or Energy Performance Certificate (EPC) standard to be achieved and by when, including for the fuel poor.

The extent of the synergy between improving energy efficiency and tackling fuel poverty has not been adequately addressed by these proposals. This strategy should be a key element of FPAG’s proposed ‘Road Map’ and should contain a statutory target to eliminate fuel poverty by 2016.

8. New Heating technologies

Government commitment to the widespread promotion and support of new technologies including air-source heat pumps, solar thermal systems, and biomass heating and photovoltaic systems.

In the long term, most communities without access to mains gas will have to rely on an alternative source of fuel. Uncertainties about future gas prices provide a compelling argument for the adoption of alternative heat sources and systems that can be widely applied in rural and other expensive-to-treat housing. They should be made available through fuel poverty programmes.
9. Community Energy Saving Programme (CESP)

Government to mandate the transparency of CESP cost recovery, levies and consumer equity.

The implied assumption when CESP was launched was for suppliers and generators to bear the whole or the great majority of the cost. Few fuel poor households will receive CESP measures. Without transparency, FPAG fears that the full cost will eventually be borne by all customers through their energy bills. Such programmes should be paid for through public funds rather than through customers’ bills and their consequential regressive effects.

10. Prepayment tariff differentials

The prepayment tariff differential to be addressed through price controls.

It is inequitable that the generally poorer consumer should pay more because they use prepayment meters. The differential between on-line dual fuel Direct Debit payers and dual fuel prepayment meter payers is £180, rising to £255 in the worst case. In view of the smart meter mandate and the potential for some customers having to wait up to 10 years or more for new and lower cost prepayment metering, there is now an overwhelming case and an opportunity for the tariff differential to be addressed through price controls and tariffs levied as if a smart metering regime was already in place.

11. Smart Meters

The implications for customers and a new approach to debt management for a smart meter future should be thoroughly explored.

FPAG supports the roll-out of smart meters in all homes by 2020. However, DECC should initiate a thorough review of the changing customer and supplier relationships that will emerge. FPAG is concerned about the implications of peak pricing and the potential for vulnerable customers to inadequately heat their homes. It should also be possible to eliminate the need for total disconnection through load limiting.

12. Post Office Card Account (POCA)

Develop a POCA type service to give the unbanked access to direct debit energy deals.

The certainty provided by the awarding of the contract to the Post Office provides an opportunity to develop a range of banking services to aid financial inclusion by enabling the ‘unbanked’ population to access to direct debit energy discounts and improved management of other debt issues.
Recommendations in detail

1. Road Map

As a matter of urgency the Department of Energy & Climate Change (DECC) should prepare a ‘Road Map’ with milestones and ownership of the key tasks required to eradicate fuel poverty by 2016.

The Government needs to set out precisely how it intends to eradicate fuel poverty by 2016 and identify the contributions from each of the three elements affecting fuel poverty—prices, incomes and energy efficiency levels—towards reaching the target date. The strategy should include a costed plan which identifies the levels of funding required to deliver the programmes needed, together with a timetable for planned phasing of expenditure and identification of key funding sources. The responsibilities of each Government department should be clearly set out.

A major factor in derailing the Government’s progress towards its 2010 target was the unanticipated increases in electricity and gas prices. While it is not always possible to accurately forecast price movements it is, nevertheless, possible to set out a range of likely price scenarios as suggested in the next recommendation. DECC’s ‘Road Map’, therefore, needs to be based on a range of scenarios for fuel prices, covering the spectrum from high to low, in the coming years and decades. This should set out specifically how it plans to meet the 2016 target within its fuel price scenarios.

FPAG also recommends that as part of this plan DECC sets a target date for improving the English housing stock to a specific level of energy efficiency. This level will be dependent upon other policies, for instance to stabilise the impact of other price rises or to increase income levels.

2. Affordability

Initiate a detailed study to model a range of fuel poverty scenarios in this period of volatile prices and imported gas dependency together with the industry’s investment plans.

Most observers predict that, despite some recent falls in energy prices, the long-term trend will be further increases. FPAG agrees with this view. The nature of the UK’s energy market, together with the Government’s climate change ambitions, plus the need to import significant quantities of gas, require a range of scenarios and their consequences to be explored and understood.

The EU Large Combustion Plant Directive, for example, necessitates the closure of some older coal fired power stations. This will require the rapid construction of new generating capacities to meet security of supply requirements. Much of this will be gas fired due to its cost and speed of construction, and also its relative ease of obtaining planning consent. Some commentators predict more than 60 per cent of the UK’s gas will have to be imported at certain times of winter peak demands following the completion of several gas fired generating plants. The gas required to meet this demand, and the shortfall due to the dwindling UK gas reserves will, at times, have to come from regions associated with unknown political implications, such as Russia, Qatar and Algeria.
Estimates of increased industry investment vary from £150 billion by 2020 (Ofgem) to £234 billion by 2025 (Ernst & Young). This will inevitably increase consumer’s bills. Meanwhile, a failure to invest will drive tighter supply margins and high prices, as will policy uncertainty in itself. The latter, potentially, will lead to yet more gas fired construction.

All of these factors have the potential to combine and create considerable uncertainty in the energy markets, leading to greater price volatility. This drives FPAG’s concern about the general affordability of energy for all customers and for fuel poor households in particular.

3. Social Tariff

Mandate a social tariff funded through a Fuel Poverty Levy placed on all electricity and gas sold.

FPAG acknowledges that suppliers have made progress in this respect and looks forward to them meeting their commitment made to Government. However, social tariffs still only represent less than 0.5 per cent (Consumer Focus/Cornwall Energy Associates 2009) of their collective turnover. Meanwhile, the potential risk and extent for prices to rise compared to the potential relief on offer, is judged by FPAG to be inadequate.

FPAG considers it essential that the Government takes responsibility for setting a minimum standard for a social tariff and the Department of Work and Pensions should determine eligibility. It is not appropriate to expect suppliers to take decisions on such an important area of social policy.

The potential for volatility in the wholesale market to lead to unaffordable energy bills for the fuel poor is a significant risk. Therefore, a robust mechanism must be put in place to facilitate the required safety net. Ofgem will only operate within its economic remit which, by default, will prevent its ability to require a supplier to sell energy below cost, should this be necessary on the grounds of affordability. Hence, there is a requirement to level the playing field for all suppliers and put a levy in place. It is important for minimum standards to further specify that the social tariff is offered at a rate regardless of payment method.

FPAG, therefore, asserts that a social tariff is required which should be funded through a Fuel Poverty Levy placed on all gas and electricity sold. As pressure on the public purse diminishes the fund should be increased through general taxation. Adopting this approach would create the necessary funding and levels the playing field for all major suppliers who have varying numbers of fuel poor customers as a result of their latent and legacy customer base. Suppliers should be encouraged to innovate above this level. Supplier views vary on this approach but a number are now in favour of mandating social tariffs.

The fund should be synchronised with market volatility and be distributed to the most in need, and credited by suppliers directly to energy accounts. The fund could also be used to assist other initiatives that alleviate fuel poverty. The levy on energy sold is not dissimilar in approach to that used in France.
In regard to social tariff eligibility, FPAG would support the use of cold weather payment eligibility criteria to determine entitlement. These would include:

- Recipients of Pension Credit
- Income Support, Income-based Jobseeker’s Allowance or income related Employment and Support Allowance with a child aged 5 or younger or those who receive certain means-tested benefits

Or those who receive one of the above means-tested benefits and also receive:

- Pensioner premium, higher pensioner premium or enhanced pensioner premium disability, premium or severe disability premium
- Child Tax Credit that includes an individual element for a child or qualifying young person who is disabled

The groups missing from the above are families on low incomes with school age children. FPAG therefore suggests households on means tested benefits with school age children should be added to the above.

To deal with those off gas with only electricity and who use electricity as their main heating source should receive a higher level social tariff on their electricity bills and broadly equivalent to the discount gas consumers would receive.

Eligible households with only electricity and who use another fuel source, such as oil or Liquified Petroleum Gas (LPG), as their main heating fuel should receive a social tariff on their electricity bill and a ‘heating addition’ within their benefits. The ‘heating addition’ should recognise the additional costs associated with these heating fuels.

Subject to confirmation of the effectiveness of data-sharing, FPAG recommends that the social tariff is automatically offered to eligible customers.

4. Income adequacy and welfare benefits

A step change in the process and number of benefit entitlement checks plus increases in the notional fuel element of benefits as a whole should be undertaken.

Fuel poverty exists in the context of high levels of income poverty. In 2007/08 there were 4 million children, 7.5 million adults and 2 million pensioners living below the poverty line.

Most of these households need state support in the form of out-of-work benefits, tax credits, the pension credit, disability benefits and benefits providing help with particular costs like council tax. It is essential that welfare benefits and tax credits are paid at adequate amounts to reflect the real costs of household fuel and are increased each year at rates fully commensurate with the rising costs of domestic fuel. This is not currently the case but will be a necessary element of a successful strategy to end fuel poverty.
Although fuel bills have been typically been cut by around 10 per cent in 2009, this followed a rise of around 30 per cent in 2008. A longer term upward trend is expected. Most benefits are increased in line with the Retail Price Index (RPI); and rises in tax credits and pension credit have been indexed to earnings in recent years. This has allowed both benefits and tax credits to slip well behind the rising cost of fuel.

The weighting of the ‘fuel and light’ component within RPI is 4.9 per cent. But the weight of bills for ‘fuel and light’ is heavier on the household income for millions of fuel poor households reliant on benefits, being at least double that of RPI at 10 per cent or more. Up rating on the basis of RPI is failing to ensure households at greatest risk of fuel poverty have sufficient income to meet rising fuel bills. The people affected are therefore left with a choice of cutting other essential areas of household spending, going into debt or going cold.

Ending fuel poverty by 2016 will be an almost impossible task if the general extent of poverty in the United Kingdom is not addressed. While increasing employment is rightly a central part of the Government’s anti-poverty strategy, benefit adequacy will always remain essential. This means both paying and up rating benefits at fairer rates, and improving take-up.

Benefit take-up campaigns are particularly important when new households are becoming reliant on an unfamiliar benefits system for the first time as a consequence of the economic downturn. The Department for Work and Pensions estimates that around £10 billion of welfare entitlement is not taken up each year. More people need to be reached by information campaigns about the financial support they are entitled to; there should be improved access to the support and advice needed to help them apply for their entitlements.

FPAG welcomes the Work and Pensions Select Committee Inquiry into Fuel Poverty which drew on joint oral evidence from Ministers in both DWP and DECC to investigate how effective energy efficiency measures and income-based policies have been in tackling fuel poverty.

FPAG supports schemes such as Warm Front and that of the energy suppliers, which link customers to increased benefit entitlement as part of their assessment process. However, Government must balance this responsibility and not leave suppliers with the task of entitlement checks. The DWP should also be properly resourced to undertake this important work.
5. **Warm Front Budget**

Government to commit to at least the 2008/9 levels of expenditure, preferably to a considerably higher level which would be funded via general taxation.

This public expenditure commitment has its current phase ending in 2011. Current Warm Front budget implications for 2010/11 will allow assistance to only 90,000 households compared to 215,000 households anticipated in 2009/10 (eaga 2009). A Government response to this issue is urgently required.

FPAG has been consistent in its view that the grant maximum has historically been set too low and we welcome the increase in the grant maxima. However, the £6,000 maximum applies only to hard-to-treat properties that are off the gas grid. It should be extended to all hard-to-treat properties together with adequate funding. As part of the ‘Road Map’ FPAG recommends that in 12 months a review is undertaken to ensure that a perverse effect is not created that causes a reduction in the volume of other measures being installed. This review should assess whether the take-up levels have been increased sufficiently to address the requirement for client contributions.

6. **Decent Homes Standard**

Government should specify a ‘Decent Homes Plus’ standard.

Funding for the current Decent Homes Programme comes to an end in 2010. Despite its success, FPAG believes that the thermal comfort element of Decent Homes is inadequate to provide affordable warmth. Therefore, once the Decent Homes Standard has been fully implemented in social housing, it will be necessary to set a ‘Decent Homes Plus’ target using a more ambitious thermal comfort criterion. This should be accompanied by adequate levels of Government funding.

Applying the Decent Homes standard has halved the number of homes in the social sector that provide inadequate thermal comfort. The average Standard Assessment Procedure (SAP) rating for social housing rose ten points between 1996 and 2006 to SAP 57. This is compared to a rise in SAP of only five points to SAP 47 in the private sector, which represents 80 per cent of all housing. Almost all social sector housing (97 per cent) has a SAP rating of more than 30.

It is anticipated that 95 per cent of the social housing stock will be ‘decent’ by 2010. The gains made through the Decent Homes Programme have been significant; its replacement should go further in delivering standards of refurbishment more in line with what is now possible with existing technologies. This programme should start by addressing the 5 per cent of the social housing stock which in 2010 would still not meet the current decent homes standard and whose occupants are most likely to be in fuel poverty. Government needs to show how it can address such ‘hard to heat’ homes to be able to eradicate fuel poverty.

The Housing, Planning, Local Government and the Regions Committee (part of the ODPM) recommended as long ago as April 2004 that a ‘Decent Homes Plus’ target should be set with a “much more ambitious thermal comfort criterion which is in line with building regulations in force at the time when the new Standard is set”. FPAG endorses this view and that of the recent recommendation of the EFRA Select Committee (10 June 2009) that the Government should assess the cost and feasibility of introducing a SAP 81 standard as the basis of an improved thermal comfort level for all social housing.
7. Home Energy Savings Strategy (HES)

Government to mandate the required SAP rating or EPC standard, and by when.

The extent of the synergy between improving energy efficiency and tackling fuel poverty has not been adequately addressed by the HES proposals. FPAG is therefore disappointed that the strategy does not refer to a statutory target to eliminate fuel poverty by 2016 or a plan that sets out how the target would be met; hence the main recommendation of this report. The aim of reaching 7 million homes by 2020 must prioritise the groups of consumers more likely to be fuel poor.

Research (Consumer Focus 2009) reveals that if properties of ‘fuel poor’ households are upgraded to a target SAP81 or Energy Performance Certificate (EPC) Band B standard this could potentially remove 83 per cent from fuel poverty. FPAG recommends Government instigate its own and robust analysis to determine the feasibility of achieving SAP 81 or similar standard.

FPAG also requests that clarity be given as to what proportion of the proposed improvement programmes are paid for by energy consumers and what proportion is paid for through public expenditure. The funding of improvement programmes through consumers’ bills represents a considerably more regressive method of financing. FPAG would welcome inclusion in further consultation on this issue.

8. New Heating technologies

Government to commit to the widespread promotion and support of new technologies, including air-source heat pumps, solar thermal systems, and biomass heating and photovoltaic systems.

In the long term, most communities without access to mains gas will have to rely on an alternative source of fuel. Uncertainties about future gas prices provide a compelling argument for the adoption of alternative heat sources and systems that can be widely applied in rural and other expensive-to-treat housing. These should be made available through fuel poverty programmes. FPAG, therefore, welcomes the inclusion of alternative proven technologies on the Warm Front Scheme to specifically benefit fuel poor non-gas households.

National Energy Action (NEA) has been involved in developing a number of alternative and renewable technology solutions including air-source heat pumps, solar thermal systems, and biomass heating and photovoltaic systems. NEA has also tested state-of-the-art internal insulation products that may prove commercially viable. FPAG looks to Government to demonstrate commitment and political will in the widespread promotion and support of these new technologies.

FPAG believes that larger scale demonstration projects would further establish market knowledge, skills and confidence in new heating technologies in fuel poor households. In addition to the above, a tower block as part of district heating scheme would be one such example. FPAG also wishes for the planning process for new shopping centres and supermarket developments to be required to explore the potential for their waste heat to be reused. Significant amounts of heat are dissipated to the atmosphere through cooling and freezing in such developments. This could be used to heat nearby residential properties.
The development of heat pumps in particular offers the prospect of an alternative solution to oil heating for non-gas areas when combined with high levels of insulation. FPAG would like to see suppliers become engaged in larger market trials of this technology, to be combined with flexible tariffs that facilitate greater market development and also improve running costs.

FPAG understands there have been requests from the electricity Distribution Network Operators (DNO) for network reinforcement costs due to the theoretical maximum load required by a heat pump. Many non-gas areas are often in rural locations which have limited electrical capacity to take additional electrical loads.

FPAG asserts that the DNO regulatory formulas that drive the customer to be asked for network reinforcement costs are addressed by Ofgem as part of the current distribution price control review. It is inequitable that long-suffering fuel poor non-gas customers could continue to be denied affordable warmth by the compounding implications of legacy issues.

9. Community Energy Saving Programme (CESP)

Transparency of CESP cost recovery mechanisms, levies and consumer equity.

The implied assumption when CESP was launched was for suppliers and generators to bear the whole or the majority of the cost and not consumers. Despite this expectation and without evidence to the contrary FPAG reluctantly anticipates the full cost of CESP will eventually be borne by customers. Our ongoing concern is that, without transparency, such programmes must be paid for through public funds rather than through regressive and opaque mechanisms in customers’ bills. Furthermore, the nature of this programme and the small number of measures available will, by its design, mean only a small percentage of all fuel poor consumers will benefit.

With regard to the involvement of a local partner in the CESP programme, FPAG believes this is essential for the successful delivery of any community or area based scheme. FPAG therefore believes that the energy companies should be required to form a partnership with either the local authority or other relevant groups early on in identifying suitable areas for CESP schemes. Such a requirement would aid, to some degree, CESP’s cohesiveness with other stakeholders.

FPAG is also concerned that supportive infrastructures will not be consistent across the country and as a consequence the exclusion currently faced by some disadvantaged communities will be further exacerbated. Without attempts to ‘steer a course’ on the local partnership objective, it seems inevitable that only those areas with supportive local authorities and active community groups will present the strongest case for inclusion in the programme. Careful consideration is necessary to ensure an appropriate requirement be made to overcome the potential for these inequitable and predictable outcomes.
With regard to who pays for such initiatives, for example levies or taxation, FPAG has yet to conclude on this important issue. Meanwhile, Government should explore and consult on this issue, for example:

**Should taxpayers carry the cost when:**

- the principal beneficiaries are future generations, eg, with new technology developments such as wave power?
- the costs to be met are the result of the failure of previous generations to pay the real costs, eg, coal mining subsidence or health impacts?
- if the impact on energy costs is highly and unduly redistributive?
- if the problem being addressed is largely non-energy in cause, eg, fuel poverty arising from poor housing?

**Should energy consumers (or more specifically energy bill payers) carry the cost of:**

- their fair share of the costs of energy supply and distribution and maintaining a specified standard of energy ‘reliability’
- ensuring that all consumers have equal opportunities to participate from the benefits of competition and energy saving obligations
- the environmental damage caused by their energy use (and/or cost of avoiding the damage)

**10. Prepayment tariff differentials**

The prepayment tariff differential be addressed through price controls and tariffs levied as if a smart metering regime were in place.

Although it is recognised that not all fuel poor customers pay by prepayment, there is a correlation between low income, fuel bill problems and prepayment meter use. FPAG has been consistent in its view that it is inequitable that poorer consumers should pay more because they use prepayment meters. The differential between an online dual-fuel direct debit consumer and a dual-fuel prepayment consumer can be £180, rising to £225 per year in the worst cases (Ofgem, May 2009).

The majority of prepayment consumers use this method to enable them to budget household costs and avoid debt. There is a significant benefit to energy suppliers of the avoided cost of debt. It is inequitable that due to previous regulatory intervention – competition in metering, plus Government intervention into the smart metering agenda – prepayment customers could be denied the financial benefits of smart metering for several more years.
The result of these interventions, together with market uncertainty, means that prepayment customers will continue to pay disproportionately more, despite technology being available that would resolve the tariff differential. In view of the smart meter mandate, with the potential for some customers having to wait up to 10 years or more, the tariff differential should be addressed as a priority.

Tariffs should be levied in line with the same relativities of a smart metering regime, as if it were already in place. This could be achieved through a consistent approach to metering cost allocation, the required licence conditions and be based on the suppliers’ business cases that support the roll-out of smart metering. It would act as a stimulus to address the most cost effective areas of the market first.

11. Smart Meters

FPAG supports the roll-out of smart meters. The customer implications, plus a new approach to debt management for a smart meter future, should be thoroughly explored by Ofgem.

The following list indicates areas which should be explored in advance of the smart meter roll-out. For example, peak pricing and the implication for vulnerable customers as well as the risks of too much unregulated power vested with suppliers and its agents in a remotely controlled supplier/customer relationship:

**Remote disconnect and reconnect of both electricity and gas for non payment**
Ofgem will need to review the current debt and disconnection process to ensure customers' interests are safeguarded. The ability to transform the debt recovery process and not resort to disconnection could be facilitated through smart meters. The opportunities for load limiting and credit management are new options which could mean no customer is wholly without energy.

**Increasing tariff differentials and vulnerable customers**
The potential for time-of-use tariffs is well understood in a smart meter context. However, there are significant societal implications for vulnerable customers if expensive peak prices become the norm.

**Remote instigation of load limiting for electricity**
This new facility, in addition to debt management, could facilitate a new approach to residential tariff structures. In Italy and France, for example, a range of kilowatt limits are the norm and reflected in the prices customers pay.

**Remote payments by customers**
Identity theft and process safeguards must be explored. Although payments over the internet are common place, they are made in a relatively mature technological environment. The appropriate safeguards that underpin internet transactions by some organisations should be explored in a smart meter context and form part of further input to the impact assessment.

**Remote billing adjustments and data protection**
The ability of suppliers to have a further incentive for paperless billing will require additional process safeguards to ensure a customer’s billing history retains its integrity. The potential for remote changing of tariffs will now be possible on a large scale. Ultimately, up to 47 million customer accounts could be affected. The potential for significant and wide-scale errors becomes a possibility, so process safeguards and customer redress mechanisms need to be explored.
Remote changes to tariff regimes and unit prices
The comments above also apply to this issue

Remote appliance control in a Demand-Side Management (DSM) context
The concept of dynamic demand to reduce system peaks is a concept being explored around the world. Significant Demand-Side Management is undertaken in England, Wales and Scotland through National Grid. The current range of mechanisms includes Dinorwic pump storage, commercial cold stores, water company diesel generation and supplier load management bids. The smart meter context has the potential to change this together with the post-2012 supplier obligation. The full impact on customers must be understood.

Customer roll out experience and time to deploy
There are implications for customers depending on the market model that eventually is selected for a smart meter deployment. Before a decision is taken it will be important to understand the implications for customers.

Customer education and engagement
It is recognised that the engagement of customers – particularly the fuel poor and vulnerable – is paramount on the issue of smart meters and carbon reduction. Universities and other appropriate bodies should be engaged to ensure the investigation of suitable approaches for low income customer involvement.

The cost of legacy contracts, stranded assets and their cost recovery
The decision to take smart metering forward will require the resolution of cost recovery mechanisms for dealing with the above issues. Regulatory precedent exists for the recovery of the costs which facilitated a liberalised energy market. However, there needs to be greater understanding of the stranded metering costs and the mechanism to recover these and ensure an equitable customer outcome.

12. Post Office Card Account (POCA)

Develop a POCA type service to give the unbanked access to direct debit energy deals.

The POCA is an account that can only be used to receive benefits, state pensions and tax credit payments. No other payments, including wages, can be paid into it. POCA customers are able to take out cash and request a balance enquiry, free of charge, at any Post Office using their POCA card.

Therefore, it enables claimants to potentially improve the management of their cash without the risk of becoming overdrawn or incurring any charges. At the moment, the POCA does not provide transactional facilities, ie, direct debits or standing orders, thus limiting its benefit as a budgeting and bill payment product.

Allowing transactional facilities within a POCA-type facility would enable customers to pay by monthly Direct Debit. In the case of fuel bills this would allow access to cheaper tariffs.

For those consumers on limited and fixed weekly incomes, traditional monthly direct debit arrangements can be difficult to manage or may not be suitable. A POCA-type development could address this by providing the facility for customers to accumulate weekly payments to be transferred into a holding account for payment on a monthly basis to the energy supplier.
A proposal from Savings from Poverty (SfP) recommends a social enterprise initiative to address the problems faced by consumers who are unable to use direct debit. The proposed scheme would augment the POCA, allowing other payments to be made and providing an ATM withdrawal facility as well as a budgeting sub-account feature with a transactional facility. This would enable bill payment and debt repayment across a range of public and private sector bills.

Awarding of this contract to Post Office Ltd offers the opportunity to deliver a step change for the poor by enhancing financial inclusion. A unity of purpose needs to be developed across all relevant Government departments with the objective of delivering continuity of customer service in 2009, in conjunction with energy suppliers.
Conclusion

Despite several welcome announcements by Government, plus their ongoing concern about fuel poverty, the number of fuel poor households in England has dramatically increased from 1.2 million in 2004 to 4 million as at September 2008. This is due, in large measure, to the increased costs of energy.

Winning the fuel poverty battle will require a unity of purpose, across all political parties, to turn a number of laudable climate and carbon ambitions into action:

The United Kingdom is entering a transforming energy context. Government and other stakeholders must ensure that its potential impacts be explored, anticipated and understood. Part of the current de-railing of the fuel poverty strategy was the unanticipated increase in energy prices and we must not repeat this experience.

The scale of the strategic climate and carbon objectives recently announced require robust, detailed planning; a declaration of ownership and the required long-term financial resource.

We must all share a vision of having all residential dwellings energy efficient. Benefit increases and social tariffs should only be necessary as a last resort.

Customer equity requires a special focus to redress the fact that poor consumers pay more via a prepayment meter than a direct debit consumer with access to the internet. This has to change.

Fuel poverty has high visibility and is an important issue, both for the public and Government. It is essential that it should remain so. The world’s current financial turmoil and recession will, inevitably, lead to more households moving into fuel poverty. Without determined action from Government, together with the necessary leadership, we will fail the increasing number of households who need help.

The future energy context is uncertain, but change does bring opportunity in many respects. FPAG urges the Government to rapidly develop and deploy its strategy as much of our climate ambitions will resolve the energy efficiency of our residential dwellings; one of the fundamental causes of fuel poverty.
Appendix I

Membership of the Fuel Poverty Advisory Group

Derek Lickorish, Chair, Fuel Poverty Advisory Group
John Chesshire, Vice Chair, Energy Efficiency Partnership for Homes
Drew Johnson, Chief Executive, eaga
Jenny Saunders, Chief Executive, National Energy Action
Abigail Burridge, Senior Project Officer, Local Government Association
Jonathan Stearn, Team Lead: Disadvantage, Consumer Focus
Teresa Perchard, Director of Policy, Citizens Advice Bureau
Gill Owen, Chair, Public Utilities Access Forum
Christoph Sinn, Policy and Practice Officer, Chartered Institute of Housing
Dr Noel Olsen, Public Health Physician Trustee, National Heart Forum
Andrew Warren, Director, Association for the Conservation of Energy
Mervyn Kohler, Special Advisor, Help the Aged and Age Concern
George Mayhew, Corporate Affairs Director, National Grid
Tony Keeling, Director of Customer Services, Scottish and Southern Energy
Jim Poole, Managing Director, EDF Energy
Kevin Miles, Chief Executive, RWE Npower
Matthew Bateman, Managing Director, Pay-As-You-Go Energy, British Gas
Willie MacDiarmid, Director Energy Retail, Scottish Power
Graham Kirby, Retail Regulation & Energy Policy Manager, E.ON UK
Kate Green, Chief Executive, Child Poverty Action Group
Terms of Reference

The Fuel Poverty Advisory Group is an Advisory Non-Departmental Public Body sponsored by the Department of Energy and Climate Change (DECC). Its primary task is to report on the progress of delivery of the Government’s Fuel Poverty Strategy and to propose and implement improvements to regional or local mechanisms for its delivery.

The role of the Group is:

- to consider and report on the effectiveness of the current policies in delivering reductions in fuel poverty and the case for greater co-ordination
- to identify barriers to the delivery of reductions in fuel poverty and to the development of effective partnerships, and to propose solutions
- to consider and report on any additional policies needed to deliver the Government targets
- to enthuse and encourage key players to tackle fuel poverty
- to consider and report on the results of the work to monitor fuel poverty

As will be seen, the Group consists of a wide range of organisations with different views and this is one of its strengths. On many of the issues there is a large measure of agreement. On others, especially the European Economic Community (EEC) and energy prices, there are differences and the views in this report do not necessarily reflect the views of individual members.

Appendix II

FPAG has made written submissions to a number of select committee and departmental enquiries. FPAG gave oral evidence to the Efra Select Committee investigation into fuel poverty. The following written submissions are available on request from the Department of Energy and Climate Change (DECC):

- Efra – Select Committee enquiry into Energy Efficiency and Fuel Poverty (October 2008)
- BERR – Call for evidence Post Offices – securing their future (January 2009)
- Ofgem – Supply Market Probe Consultation addressing unfair price differentials (February 2009)
- Defra/DECC – Amendments to the Carbon Emissions Reduction Target (April 2009)
- DECC – Consultation Community Energy Saving Programme (CESP) (May 2009)
- DECC – Consultation Heat and Energy Saving Strategy (May 2009)
- DECC/DWP – Call for evidence about Fuel Poverty (June 2009)