

National RIGHT TO FUEL Campaign

Campaigning for a warm, dry, well-lit home for all



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Response to DTI Energy Review (April 2006)

EXECUTIVE SUMMARY

National Right to Fuel Campaign welcomes the opportunity to respond to the consultation – ***Our Energy Challenge – Securing Clean Affordable Energy for the Long Term***. NRFC was set up in 1975 and our aim is to put an end to fuel poverty by securing a warm, dry, well-lit home for all, regardless of income and location

The title of the consultation document encapsulates the policy objective for government – secure, clean energy in the **long term** (our emphasis). People who live with fuel poverty need solutions now, as well as the long term, which will give them homes that are capable of being heated and lit by energy that consumers can afford to buy from markets that work well and which consumes less than 10% of their disposable income. We know that this is easy to write but nevertheless immensely challenging to deliver. If we fail, the consequences are grave and will lead inevitably to excess deaths.

Our focus therefore is on the 5th key question for the review – What steps should be taken towards meeting the government's goals for ensuring that every home is adequately and affordably heated? Our response is structured around the issues of energy markets, income and energy efficient homes.

Increasing Income

Low income consumers need more income to cope with price increases. While this can be delivered by improving benefit take up, consumers need more money. Government must:

- introduce additional benefit top-up for those in receipt of pension and child tax credit;
- ensure that DWP remains committed to joint working on benefit take up with DTI and others;
- reduce complexities in the benefit system as part of its wider poverty policies

Improving energy efficiency

A successful energy efficiency programme requires investment in new technologies, better quality building, more action by consumers and government programmes which can be easily accessed by consumers and delivered by practitioners. Government must:

- Co-ordinate its various housing targets and reduce the complexities of energy efficiency programmes;
- Address issues of income top-up which act as a barrier to take-up;
- Develop and encourage more innovative technologies for hard to treat homes; and
- Continue to improve energy efficiency management and reduction information

Making markets work

Government and Ofgem need to work together to ensure that markets work efficiently and companies are not able to exploit consumers. Where markets fail, regulation needs to be appropriate, effective and consumer focused. Government must:

- Work with Ofgem to deliver truly competitive European and domestic energy markets; and
- Ensure that effective regulation which protects vulnerable consumers exists where markets fail.

1 INTRODUCTION

National Right to Fuel Campaign welcomes the opportunity to respond to the consultation – ***Our Energy Challenge – Securing Clean Affordable Energy for the Long Term***. NRFC was set up in 1975 and our aim is to put an end to fuel poverty by securing a warm, dry, well-lit home for all regardless of income and location.

Living in fuel poverty has a profound impact on the lives of people. In the 21st century, it is outrageous that there are still people who have chronic illnesses who survive the winter wearing coats and scarves and crouched within a circle of radiant fire, barely existing and living with the worry of whether or not they will be able to keep the fires on if the weather gets worse. Or that there are pensioner couples who take to their beds, wearing gloves and hats, to read in bed to make their expenditure on energy go that little further or the families who all sleep in one heated room with a small gas fire where children have little hope of getting an education.

We have campaigned for 22 years to get the tragedy of fuel poverty accepted by government and were delighted when the Government, in 1997, accepted that something needed to be done and launched its fuel poverty strategy. Much has been discussed since then but we are not close to eradicating fuel poverty which is the Government's target for vulnerable people in 2010 and all people in 2016 and in fact are now rapidly moving away from achieving the target as a consequence of the price increases over the past three years. Since 2003, the number of households in fuel poverty is estimated to have increased by nearly 2 million, from some 1.2million in 2001 to around 3 million as of now, even on the Government's minimal full income definition.

In the consultation document, Government restates its commitment to its public policy goals of reducing carbon emissions, maintaining reliable energy supplies, promoting competitive markets and making energy affordable for all. We believe that the issue of affordability, because it is a consequence of each of the objectives, is only being addressed in hindsight, evidenced by the fact that there is limited coverage of the issue within the consultation document. Government needs to step up to dealing with the consequences of its energy policy objectives on low income consumers in the short, medium and long term, if it wants to prevent not only failure to deliver on targets but, more importantly, to save lives and improve living standards.

WHAT DO THE FUEL POOR NEED?

The title of the consultation document encapsulates the policy objective for government – secure, clean energy in the **long term** (our emphasis). People who live with fuel poverty need solutions now, as well as the long term, which will give them homes that are capable of being heated and lit by energy that consumers can afford to buy from markets that work well and which consumes less than 10% of their disposable income. We know that this is easy to write but nevertheless immensely challenging to deliver. If we fail, the consequences are grave and will lead inevitably to excess deaths.

Our focus therefore is on the 5th key question for the review – What steps should be taken towards meeting the government's goals for ensuring that every home is adequately and affordably heated? Our response is structured around the issues of energy markets, income and energy efficient homes.

2 INCOME ISSUES

Increasing income for fuel poor consumers now

For domestic consumers, energy prices have increased by between 39% and 70% since 2003 and show no sign of abating. The prospect of annual energy bills that are over £1000 are now a very real proposition. For consumers on fixed incomes this is a disaster. It is self-evident that low income fuel poor consumers need more income now to cope with the price increases of the past three years. It will not be sufficient to rely upon the generic income increase from the RPI basket which underestimates the proportion of income spent on fuel by low income consumers.

The budget announcement, which will provide above-inflation increases in child tax credit over the next three years, is to be welcomed because of the assistance that it will provide in meeting the increased cost of fuel. However, the failure to provide additional financial assistance for pensioner households or for other "non-vulnerable" fuel poor consumers means they will be coming through one winter of high energy prices, fearful of the winter bill that is about to drop on their doorstep and anticipating what they will go without to survive the next winter.

NRFC calls on government to commit to introduce an additional benefit top up for those in receipt of pension and child tax credit which compensates sufficiently for above inflation increases in energy costs which could be funded, at least in part, from the profits of oil and gas companies and increased VAT revenues. We estimate that the additional revenues accruing to government as a result of increased North Sea taxation and their VAT windfall will be in the region of £400m per annum.

Improving benefit take up

Providing benefit income to low income consumers is generally no guarantee that it will be claimed. Help the Aged estimate that £2.5 billion of benefits is unclaimed by pensioner households. They describe the benefit system as muddled, labyrinthine and poorly advertised. Much more work is needed to enable people to access the benefit system effectively. Much is made of the contribution made by energy suppliers and others to improve benefit take up. In the recent 4th Annual Report, the Fuel Poverty Advisory Group praise the fact that DWP now recognises the "huge potential synergies between themselves and they are now providing an admirable model of joint working." It has taken time to set this relationship up and it is important that it succeeds.

NRFC calls on government:

- to ensure that DWP remains committed to the joint working described above;
- publish information about the number of people who have been helped as a consequence of the joint working;
- and reduce complexities in the benefit system that are acting as a barrier to benefit take up as part of its wider poverty policies.

3 ENERGY EFFICIENCY ISSUES

It is estimated that during a cold winter, un-insulated homes will waste £1.9 billion in fuel and 17.8 million tonnes of CO₂ as thermostats and electric heaters are turned on full in a bid to heat the 21 million UK homes suffering inadequate insulation. Cold snaps lead to waste.

The impact of climate change is increasing, with colder winter temperatures, and higher temperatures in summer, and those living in fuel poverty are the hardest hit. In any strategy to combat climate change, and reduce CO₂ emissions, it is important that social equity is maintained as a key principle in our Energy Strategy.

People need to live in homes that are capable of being warm, well-lit and free of damp. We welcome the additional support given to energy efficiency activity in the latest budget which will contribute to its delivery. The Government's Kyoto target is to cut carbon emissions by 20% by 2010. Unfortunately, greenhouse gases are also set to rise by 53% by 2030 unless the world takes action to reduce energy consumption. A 60% reduction in carbon dioxide by 2050 is required if we are to deliver adequate, affordable warmth. This requires investment in new technologies, better quality building, and more action by consumers and government programmes which can be easily accessed by consumers and delivered by practitioners.

Too many programmes and targets

There are a plethora of targets, owned by different government departments, which could each contribute to the delivery of warm homes. However there is insufficient co-ordination and common acceptance of what is needed to fulfill the obligations. There is clearly a lack of co-ordination between relevant Government departments, namely the Office of the Deputy Prime Minister, Department for Environment, Food and Rural Affairs, Department of Trade and Industry, Department of Health, Department for Work and Pensions.

Among the range of targets, there are the national Fuel Poverty targets, the Health Housing and Safety Rating system, EEC commitments, and Decent Homes standards, 'owned' by different Government Departments and each with different and sometimes conflicting requirements. There are additional targets for the Health Service and for community regeneration which could be relevant. While some of these are complementary, for example, the HHSRS and fuel poverty targets, there is generally little co-ordination towards making the housing stock increasingly energy efficient to cope with the future of rising prices and the increasing impact of climate change. This can have the effect of people in cold homes being disadvantaged or excluded from help through Warm Front or other schemes.

We support NEA's belief that the complexities of current arrangements for energy efficiency action act as yet another obstacle for consumers to achieve warm homes. This needs to be addressed as a matter of some urgency with the creation of a single, national, English programme which can be understood by consumers and communicated by practitioners and service deliverers. While we have welcomed the additional support given to energy efficiency activity in the latest budget, until the process of delivery is streamlined, consumers are unlikely to get full benefit.

Making energy efficiency affordable

There has always been the phenomenon of customer contributions or top ups when a grant maxima doesn't cover the costs of work needed to an eligible household. For low income households faced with finding contributions this can be extremely problematic as most do not have savings to pay up to £350-400 extra before Warm Front works can be done. The impact of this can be that, in a number of cases, households have no option but to borrow from dubious sources or decline the grants. Under Warm Front 2, one local authority has seen customer contributions rising higher and higher to the point where it is common for a householder to be asked to contribute in the region of £1,000 and more.

An apparent reason for this is that Building Regulations, issued by ODPM, require considerably more work, costing over and above the figure of £2,700 defined by DEFRA. This excludes a number of the recipients of a key plank of the government's fuel poverty strategy through lack of communication between two crucial government departments. This is unlikely to affect only one authority and should be addressed as a matter of urgency.

Creating a single energy efficiency programme for England

A national, English, energy efficiency programme should be proactively delivered through a systematic, street by street, ward by ward approach throughout the country. The programme should be run on similar lines to an earlier national programme to convert to natural gas and would absorb the plethora of targets held by different government departments.

If a key aim is to ensure that every home is adequately and affordably heated, we would encourage the interdepartmental working group set up for the Energy Review continue to develop and oversee such a national programme. They should be given a remit to ensure that there is co-ordination between the wide range of programmes aimed at addressing improving housing standards, community regeneration and health issues, to meet the overriding targets of the elimination of fuel poverty and reduction of carbon emissions.

Towards these targets and to ensure wide uptake, we would suggest that all loft insulation and cavity wall insulation is provided free of charge, regardless of income. This would ensure that with these basic measures, any heat produced is conserved to the benefit of the household. This would save considerable the considerable administration costs associated with means testing, with a third of the population theoretically already eligible.

As fuel poverty is a devolved area, we would recommend adoption of best practice across the constituent countries of the UK. There are examples of good practice, such as the Scottish Executive Central Heating Initiative (free central heating for all pensioner households without this amenity)

Creating a single energy rating target for the housing stock with a clear target date

We have argued for many years that this should be a rising energy efficiency target, based on the SAP rating system, starting at 65.

We would also support the recommendations as published in the 40% House by Dr Brenda Boardman and others, aimed at reducing housing carbon emissions 40% of current levels. This would clearly be an effective target for the elimination of fuel poverty, reducing energy needs to a level which would be affordable for all households, subject to the future of energy prices and any necessary income support to address these.

Improving standards and practices in housing management and development

Improved housing management in the social sectors would benefit their tenants who are largely in groups at risk of being in fuel poverty

Building more appropriate sized homes in the private sector would avoid excessive under-occupation, responding to the move towards more smaller households and encouraging householders to live in appropriate sized housing to meet their needs.

Developing and encouraging more innovative technologies for hard to treat homes.

There are potential benefits of renewable technologies for fuel poor households, particularly for micro-generation installations, following which consumers would have reduced energy bills, greater control over their energy supply and use through community-owned schemes and, in some cases, the potential to sell power back to the grid.

We would encourage the government to continue and increase investment in these technologies to bring down the costs to householders. We would suggest that there grants specifically targeted on social housing schemes and low income households, for example, to install solar water heating panels, to pre-heat water for domestic hot water supply reducing costs in winter and minimise the need for boiler or immersion use in summer. These mean both reduced energy bills to householders and reduced energy demand nationally.

Improving energy management and reduction information

There has been a continual improvement in the communication of energy efficiency advice and we would support and encourage the government to ensure that there is an ongoing improvement to ensure that all households have enough knowledge to be able to take advantage of measures available to them and to improve their household energy use.

4 MARKET ISSUES

Fuel Poor consumers need a competitive European gas and electricity market

The Market, by itself, will not solve issues of energy affordability but it has a crucial role to play. Consumers need markets which are "open and competitive...based on competition between companies looking to become European-wide competitors rather than dominant national players. Open markets, not protectionism, will strengthen Europe and allow it to tackle its problems. A truly competitive single European electricity and gas market would bring down prices, improve security and supply and boost competitiveness" Without well functioning, efficient markets, consumers are in danger of spending what little money they are able to afford to keep warm in helping to subsidise the super-profits earned by some European energy companies.

NRFC supports Government's commitment to working with the EU Commission for the development of properly functioning, competitive and transparent gas markets.

Fuel Poor consumers need a competitive domestic market as well

DTI is proud of the fact that the UK energy market is the most competitive in the EU and G7. However there is more work to be done, especially in the domestic market. Domestic consumers need a market that works well and NRFC remains concerned that a market dominated by 6 vertically integrated companies will not do this.

Ofgem's own evidence suggests that markets are not working as well as they should for consumers who are more likely to be fuel poor. In its work, published in February, it demonstrated that switching levels in the electricity and gas markets remained unchanged since 2004 – 47% of electricity consumers and 46% of gas consumers had changed supplier, however the switching rates were "significantly lower" for the unemployed and social group E.

On the **uswitch** price comparison service, there is only one prepayment offer available to consumers. It is also the case that recent research by SimplySwitch.com shows that electricity charges vary by up to £110 a year depending upon location; for example a Scottish Power customer in Edinburgh face average electricity bills of £477 while those in Leicester are charged £378. Suppliers will inevitably argue that the difference in cost is as a consequence of transmission and distribution charges but it is the belief of the Campaign that this cannot account for the extent of the difference since these costs account for around only 20 – 25% of a consumer's final bill. Yet more evidence that markets are not working effectively.

The work of **energywatch** and others to promote switching is to be welcomed but we remain concerned that it cannot be sufficient to ensure that those most in need benefit from the lowest energy prices available and it is not satisfactory to rely only on suppliers when evidence suggests that either suppliers are avoiding these consumers or that they need more assistance to access the benefits of competition.

NRFC calls on Ofgem and DTI to ensure

- that work continues to monitor the development of competition in UK energy markets and its effects on low income consumers;
- provide energywatch and others with sufficient resources to ensure that consumers can be assisted to get the benefits of the competitive market;
- and require suppliers to promote switching when carrying out EEC work.

We also call on suppliers to identify the savings that can be made from switching through their Home Heat Helpline which currently principally focuses on grants, payment arrangements and benefit checks.

When markets fail, appropriate regulation needs to be in place

The current supply licence review that is being undertaken by Ofgem could provide an ideal opportunity to ensure that fuel poor consumers are sufficiently protected. However, we are concerned that the process is nothing more than an opportunity for Ofgem to demonstrate that markets are working effectively and consumers no longer need the protection conferred. For example, we remain concerned that suppliers will fail to address the billing problems highlighted by **energywatch** in its supercomplaint. Effective billing processes are key to ensuring that consumers are able to manage their bills efficiently and avoid falling into debt.

We advocate the prohibition of estimated bills. We believe that there needs to be incentives placed on suppliers to improve their processes and we therefore, believe that there should be a maxima on the amount that can be recovered from low income consumers which should be set at the Fuel Direct rate.

We also believe that the Winter Moratorium on disconnection should be extended by licence to all vulnerable consumers. We recognise the work that has been done by ERA in this area but we believe that there needs to be a regulatory safety net should its work begin to fail.

NRFC calls on DTI to ensure that the Supply Licence Review is wholly part of the Energy Review process.

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