Tackling Fuel Poverty: the next steps

A Joint Report from the All Party Parliamentary Group
on Debt and Personal Finance and the
All Party Parliamentary Group on Poverty

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Introduction

On the 27 February 2007 the All Party Parliamentary Group on Poverty and All Party Parliamentary Group on Debt and Personal Finance coordinated a meeting where parliamentarians met with grassroots representatives, experts from the voluntary sector, fuel companies and industry regulators to discuss the issue of fuel poverty. Keynote speakers included Anne McGuire MP (Parliamentary Under-Secretary of State, DWP), Duncan Sedgwick (Chief Executive, Retail Energy Association), Adam Scorer (Director of Campaigns, energywatch), Tom Best (Vice-Chair, UK Coalition Against Poverty), and Teresa Perchard (Director of Policy, Citizens Advice). Together we identified central issues that need to be addressed by the Government and energy companies in their joint effort to combat the effects of fuel poverty.

The Government does recognise the importance of tackling fuel poverty and has introduced welcome steps to address the problem, particularly through schemes such as Warm Front in England, Warm Deal in Scotland, the Home Energy Efficiency Scheme in Wales, and the Warm Homes Scheme in Northern Ireland. Indeed, the Government has set itself the target of eradicating fuel poverty among vulnerable groups by 2010 and for all households by 2016 (2018 in Wales).[1] Other measures will be necessary but it is important that these programmes continue to receive sufficient funding if the fuel poverty targets are to be met.

This report is intended to provide an overview of the factors which could undermine the efforts to reach the fuel poverty targets and the articles contained in this report highlight some key areas for action.

In an advanced society such as ours we should be able to ensure that everyone is able to heat and light their home at an affordable cost. Our efforts to tackle fuel poverty need to be redoubled to ensure we do not face the danger of a winter where people (the majority of whom are likely to be pensioners) are made vulnerable to cold related illnesses and deaths.[2]

[1] Vulnerable consumer is an umbrella term which includes those who are most likely to feel the full force of fuel poverty in ways that can detrimentally impact upon health and wellbeing. This includes pensioners, people with disabilities, those with long term sickness, and low income families with young children.

[2] The Office for National Statistics estimates that during 2005/06 there were 25,700 excess winter deaths (December-March) in England and Wales compared to deaths over the non-winter period.
http://www.statistics.gov.uk/CCI/nugget.asp?ID=574&Pos=1&ColRank=2&Rank=224

In 2007 we are at a crucial point in identifying the actions required to combat fuel poverty, for we have less than three years to reach the goal of eradicating fuel poverty amongst vulnerable households. This year many energy companies have announced welcome cuts in fuel prices. While fuel prices have been falling more recently, we should also remember that they had been rising sharply for some time (since 2003), and this has caused many consumers to face increased debt and disconnection (or hazardous coping strategies, including self-disconnection). Fuel companies conducting business in the UK are among some of the most competitive in the world, but there are additional measures which they can pursue to ensure that low income customers do not pay more for their energy supply simply because they do not have access to direct debit payment facilities and/or prefer to use token pre-payment meters.

There are reasons to believe that there will be a long term upward trend in energy prices, as a result, for example, of the increasing demand for energy across the world and because of the effects of tackling climate change. Therefore we need to analyse what this means for policy on fuel poverty and that when we do so we do not look solely to the market to secure lower rates of fuel poverty. The Government needs to look at its commitment to support vulnerable consumers with the costs of their energy supply and more needs to be done towards ensuring every person in the UK lives in energy efficient accommodation. A three pronged approach on the central causes of fuel poverty (low income, poor housing and high energy prices) is needed to make a serious impact on the eradication of fuel poverty.

Although the number of households in fuel poverty is still significantly lower than in 1996, the National Consumer Council (NCC) recently identified a significant rise in the number of households living in fuel poverty, estimating that 4 million households are affected by fuel poverty in the UK (2007:1).[3] Lord Whitty, Chair of the NCC, has stated that of this number approximately three million are vulnerable consumers.[4] This can be compared with the 2 million households reported to be living in fuel poverty in the *UK Fuel Poverty Strategy: Fourth Annual Progress Report*, of which 1.5 million were outlined as vulnerable, which suggests that it could be increasingly difficult to achieve fuel poverty targets (2006:2).[5]

The Government's recent Energy Review has reiterated the importance of meeting the fuel poverty targets and its summary of measures is welcome. We look forward to the Energy Bill in the next session of

[3] National Consumer Council (2007) *Energy Shouldn't Cost the Earth: NCC's Blueprint for Action on Affordable and Sustainable Energy*.
[4] http://www.ncc.org.uk/news_press/pr.php?recordID=241
[5] Department for Environment, Food and Rural Affairs (2006) *The UK Fuel Poverty Strategy: Fourth Annual Progress Report*. Statistics taken from 2004 figures.

Parliament and we hope it will include the measures necessary to meet the 2010 fuel poverty target.

This report is intended to feed into the wider dialogue on fuel poverty and to maintain the pressure on Government and energy suppliers to achieve fuel poverty targets. The recommendations which follow in the next chapter are our conclusions based upon the papers compiled in this report. We hope that both Government and stakeholders will pay attention to the recommendations we have put forward, listed in the next chapter, and that these can form a basis for further action on the issue of fuel poverty.

Rt Hon John Battle MP
Chair, APPG Poverty

Mark Lazarowicz MP
Chair, APPG Debt and Personal Finance

September 2007

Note: The opinions and views expressed in this introduction are the views of Mark Lazarowicz MP and John Battle MP as individuals and are not representative of the All-Party Parliamentary Group on Debt and Personal Finance or the All-Party Parliamentary Group on Poverty.

The views expressed in each chapter are the views of the named contributor only.

Key Points of Action: Targeting Low Income Households

While measures to guarantee higher incomes would offer a longer term solution to fuel poverty, benefits such as winter fuel payments and grant schemes offer significant forms of support to consumers on low incomes in assisting them with energy costs.

The winter fuel payment has been a worthy initiative introduced by the Labour Government in helping pensioners to meet the cost of fuel bills over the winter months. However, more needs to be done not only to increase the value of these payments relative to the rising cost of energy and other essential outgoings, but in extending these payments to key vulnerable groups who are living on very low incomes.[6]

The creation of energy efficient homes is not just necessary to tackle the growing problem of climate change. Energy efficient, well insulated homes can increase thermal comfort and help lower the need for fuel consumption, thus leading to lower energy costs. The continuation and extension of grant schemes to assist with the cost of creating energy efficient homes is therefore crucial.

The cost of running pre-payment meters for customers is also a major concern in tackling fuel poverty, debt and self-disconnection. Pre-payment meter customers should not have to pay more for their energy supply. Pre-payment meter customers should also be offered a clearer structure to switch energy supplier when they use pre-payment meters as their payment of choice.

Taking these central issues into account, we suggest the following recommendations under three respective headings:

- winter fuel payments;
- housing, grant schemes and energy efficient homes;
- tariffs and pre-payment meters.

[6] While it is recognised that fuel prices have recently come down since 2007, energy costs had been rising steeply over a long period of time. Furthermore, the cost of other essential items continue to increase and place extra limitations on an already strained budget.

Winter Fuel Payments

- The Department for Work and Pensions (DWP) must assess the level of winter fuel payments annually so that they do not devalue over time. Payments should also take into account rising fuel costs, and also other price rises for essential services such as council tax and water.

- Given the current restriction of winter fuel payments to pensioners, consideration should be given to the possibility that the winter fuel payments should be incorporated, at a higher rate, into the basic pension as an additional payment during the winter months. This could ensure benefit take-up and simplify the process for consumers.

- An extension to the eligibility for winter fuel payments to all vulnerable people living in low income households must be seriously considered. In particular, families with young children, disabled people and people with long term sickness who are on low incomes should be considered for winter fuel payments.

- The DWP should conduct research into the possibility of a new substantial winter fuel voucher which could be introduced to all pensioners on Pension Credit/Minimum Income Guarantee, and other vulnerable households. The value of this voucher would need to increase if energy prices were to go up beyond certain thresholds. This could be funded by an additional levy on energy suppliers.

Housing, Grant Schemes and Energy Efficient Homes

- Fuel poverty programmes need to have adequate resources if the statutory 2016 fuel poverty target is to be met. Warm Front in England, Warm Deal in Scotland, the Home Energy Efficiency Scheme in Wales and the Warm Homes Scheme in Northern Ireland all need to be backed with sufficient monies. In the next spending round, it is crucially important that the Warm Front budget is maintained in order to ensure efforts to reach the 2016 target are not undermined.

- Grant schemes should be concentrated to target key groups who are in need of assistance. This would particularly apply to low-income groups from ethnic minorities, people in remote areas, or people who move regularly.

- Information about benefits and grant schemes must be provided more widely to customers, and such information must be presented in a simple and understandable format.

- Information should be offered in the form of customer information packs, helplines and face-to-face expert advice giving independent information on tariffs and debt management. Face-to-face advice is crucial because of data protection issues, as advisors cannot speak to suppliers on behalf of consumers without the customer being present.

- Remote rural areas and other areas with hard to treat housing present a major challenge which is not being met by the current fuel poverty schemes. There are examples of successful pilot schemes, schemes which tackle area-specific concerns, which could be considered for implementation across the UK.

- All energy efficiency measures should be accompanied by benefits entitlements checks and energy advice.

- Current grant schemes for heating, insulation and other energy efficiency measures must be continued, but with wider eligibility, more measures, and more funding. There should be full grants for people over 60, and more automatic eligibility for allowances and grant schemes so that take-up is greater amongst those who need assistance.

- Government schemes aimed at tackling fuel poverty and the fuel utilities' Energy Efficiency Commitment (EEC) must operate in a better integrated manner. For example, they should ensure that energy efficiency advice is provided along with installation. It should be possible to use EEC funding to expand these schemes, perhaps through the creation of a single fuel poverty scheme, as suggested by Scottish and Southern Energy, and others. This could combine the central heating programme in Scotland and Warm Deal (Warm Front in England) and the social aspects of the EEC.

- There needs to be better communication with and increased action by private landlords. For example, this could be achieved through registration schemes and incentives, or the setting of standards for the improvement of the energy efficiency of their properties. In England and Wales, there could be scope to do this through the cold hazard elements of the Housing Health and Safety Rating System (HHSRS).

- Special arrangements for remote rural areas should be considered, particularly looking to make greater use of micro renewable technology where decentralised energy provision may have important benefits for remote communities.

Tariffs and Pre-Payment Meters

- The gap between the energy prices paid by direct debit customers and customers paying by pre-payment methods, and by cash or cheque, has increased significantly over the last few years. There appears to be no good reason for the widening of this gap. Pre-payment customers have for a number of years paid more for their electricity and gas than direct debit customers but the gap has widened even more dramatically over the last two years (up by 70 per cent). The gap between those paying by direct debit and those paying by standard credit (cash or cheque) has also risen sharply. Given that customers who pay by pre-payment or standard credit tend to be on lower incomes than those who pay by direct debit we have a situation where "the poor pay more".

  Ofgem and the Government need to address this issue. Additionally, Ofgem need to ensure their 'switch and save' campaign, which persuades prepayment customers to switch, is sufficiently resourced to make an impact. Ofgem need to ensure that strong links with voluntary and local groups are established to make this campaign work effectively. Further measures need to be taken to make direct debit arrangements suitable for low income households by, for example, introducing weekly direct debits and ending the high charges for missed direct debits.

- Although energy suppliers have been working to tackle the build up of debt on token pre-payment meters awaiting recalibration following electricity price changes, energy suppliers still need to do more to accelerate their efforts.

  Plans need to be accelerated to install 'smarter' pre-pay meters and suppliers need to be much more active in assisting customers in order that recalibration can take place.

- Pre-payment meter consumers must be offered a clearer and quicker method for switching energy suppliers so that they can benefit from competitive energy prices.

- Research should be commissioned to look into a restructuring of energy tariffs in order to favour lower energy consumers. Currently, tariffs are structured so that per unit prices are cheaper the more energy that is consumed. Research should be undertaken to look into the possibilities of a change in this pricing structure so that the initial units of energy are cheaper than subsequent units. The research would need to consider the effect that changes might have on larger households, on households in rural areas and on households in colder areas and those for whom necessity dictates high usage (certain medical conditions, for example).

- In the White Paper, the Government has said it was considering taking powers in the Energy Bill to introduce mandatory minimum standards for social tariffs. The Government needs to follow this up and allow each supplier to offer their own social tariff, but to do so in accordance with minimum standards. On the question of price, social tariffs must be the lowest cost tariff rate that a supplier offers. Social tariff recipients should be able to access that lowest cost tariff regardless of their payment method.

Chapter 1 – Fuel Poverty and Energy Prices

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1. The Energy Retail Association

The Energy Retail Association (ERA) was formed in 2003 and represents Britain's domestic electricity and gas suppliers in the domestic market in Great Britain. All the main energy suppliers, operating in the residential market, in Great Britain are members of the association - British Gas, EDF Energy, npower, Powergen, Scottish Power, and Scottish and Southern Energy. Since its inception, the ERA has ultimately focused on finding ways to continually improve customers' experiences with their electricity and gas suppliers.

2. The definition of fuel poverty

A fuel poor household is defined as one which needs to spend more than 10% of its income on all fuel use and to heat its home to an adequate standard of warmth. This is generally defined as 21°C in the living room and 18°C in the other occupied rooms – these are the temperatures recommended by the World Health Organisation.

3. The causes of fuel poverty

Fuel poverty is caused by a combination of factors including:

- Energy efficiency of the home;
- Fuel costs;
- Household income;
- Heavy debt;
- Low benefits take-up.

Although in previous years low energy prices have helped poor households, low income and the current higher energy prices have an obvious effect on the ability for households to spend enough on keeping warm. This, coupled with poor energy efficiency, increasing debt and low benefits take-up results in fuel poverty. In a current climate of higher prices, fuel poverty has become a key concern of government and industry alike.

4. What is the industry doing to combat fuel poverty?

In 2006, energy suppliers in Great Britain spent in excess of £100m on dedicated fuel poverty alleviation programmes and initiatives. This was over and above the millions they already spend as part of their statutory obligations. The range of activity undertaken included the establishment of subsidised tariffs; creating Trust Funds to assist vulnerable households; developing partnerships with social welfare organisations and charities; and, setting up Hardship Funds for those most in need.

Suppliers also have a licence obligation to provide help to customers who are of pensionable age, live with a disability or chronic sickness or have a visual or hearing impairment through the Priority Service Register (PSR).

5. <u>What would the industry recommend Government do?</u>

The industry is also in discussions with various stakeholders, including the Government, in order to develop practical and long-term solutions to issues impinging on fuel poverty and its eradication. One of the key issues we would like to see tackled is the poor targeting of fuel poor households and the need for Government to direct funds – especially benefits – to those vulnerable households which require them the most. We know from a recent programme of benefits health checks that vulnerable customers are under-claiming benefits of, on average, £1200 per year. The Government has to make the process of applying for benefits simpler, better target those who genuinely need help and put social equality above political expediency.

The industry would welcome more innovative thinking from Government on the issue of fuel poverty. The ERA believes that the Government is in serious danger of missing its targets on fuel poverty, especially eradicating fuel poverty in vulnerable households by 2010, unless urgent action is undertaken. The Energy White Paper and the subsequent Energy Act should demonstrate a redoubling of efforts on behalf of the Government in terms of commitment and resources in order to have any chance of hitting its fuel poverty targets.

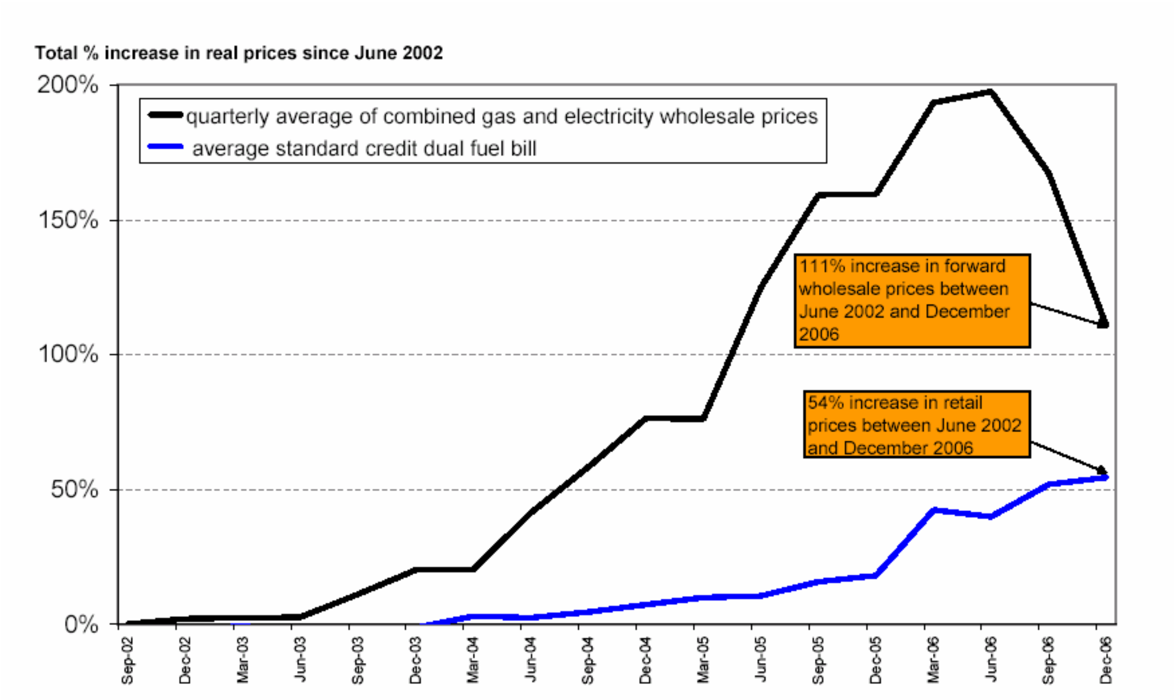
One of the ERA's key proposals is the reform of the Energy Efficiency Commitment (EEC) to provide separate carbon saving and fuel poverty initiatives. The ERA estimates that a fund of £300m could be created specifically for programmes in fuel poor households by reducing the amount of high cost measures which currently exist within the EEC model. This should be coupled with a review of the Winter Fuel Payment which would be remodeled to target those most in need. These reforms could reduce the numbers of households in fuel poverty from 2.5 million to 100,000 homes by 2010. In addition, suppliers would provide energy audits, hardship funds, special tariffs and energy audits as part of a suite of measures to complement the reforms.

The ERA agrees with the statement made in the Fuel Poverty Advisory Group Fifth Report that the Government should provide an assessment of the resources and policies needed to meet the 2016 target of eradicating fuel poverty in all households and should draw up a Fuel Poverty Business Plan for the initial years.

6. The price of domestic gas and electricity

In recent weeks the GB domestic energy market has demonstrated its responsiveness with a series of price cuts announced by the majority of energy suppliers. Between 2003 and 2006 there was a rise of some 170% in the wholesale cost of gas compared to a 100% increase in domestic gas bills. Similarly for electricity, wholesale costs rose by 140% compared with a 60% increase in domestic bills. The graph below from Ofgem support these figures:

Ofgem illustrative graph on GB wholesale/retail energy prices – 2002-2006



With the recent set of price cuts the market is performing even more competitively than last year and further evidence of this are the recent European Commission *Eurostat* figures which state:

- Annual UK 2005 prices sourced from the International Energy Agency show that, including tax, UK domestic electricity prices are below the EU median.

- Estimated data for January 2007, based on *Eurostat* information, shows that UK domestic electricity prices for medium consumers including tax, are still below the EU median.

- Annual UK 2005 prices sourced from the International Energy Agency show that, including and excluding tax, UK domestic gas prices are below the EU median.

- Estimated data for January 2007, based on Eurostat information, shows that UK domestic gas prices for medium consumers are the lowest in the EU including tax and the second lowest excluding tax.

The information confirms that the GB domestic energy market is not only competitive, but also responsive and robust. However, there are major challenges to come and the issue of future prices cannot be predicted with any degree of certainty. With the decline of the UK Continental Shelf, increased global activity in the energy market and the need for GB to import more of its energy (not to mention the rise in energy consumption), indicates that in the short-medium term it is unlikely that prices will remain static. This means that the market will be far more vulnerable to global events and prices will tend to spike more often than they have done in a generation.

The domestic energy sector is investing billions in providing a modern and efficient infrastructure to ensure long-term supply at a competitive price. The next few years will be demanding but the sector has demonstrated it's commitment to its customers and its preparedness to respond to the challenges of the future.

Duncan Sedgwick,
Energy Retail Association

Chapter 2 - Bringing Fuel Poverty Targets Back in Range

The definition of fuel poverty is the need for a household to spend 10 percent or more of its income to maintain a satisfactory level of warmth. The lived reality is cold, damp homes where consumer choice is limited to stark decisions as to whether heating takes precedent over other basic essentials and where hazardous coping strategies, such as self-disconnection and the rationing of heat and light, become commonplace. It is also households spending 20, 30 and even 40% of income to keep warm. Poor housing, low-income and the cost of energy are the three conspiring sides of the fuel poverty triangle.

The Government had made solid progress towards its target of eradicating fuel poverty in vulnerable households by 2010. The UK-wide level declined from over 4 million in 1998 to 2 million by 2003. However, with just over three years remaining the soaring cost of energy since 2003 has eroded that progress and left the target in jeopardy.

The forthcoming Energy White Paper presents Government with a major opportunity to reaffirm its commitment to the 2010 target and to set out the steps it will need to take if it is to be achieved. Unless a much more strategic approach is achieved that tackles fuel poverty in the round, progress towards the target will slip further. Tackling fuel poverty in the round will mean action to ensure that existing initiatives dedicated to making low-income homes energy efficient must be complemented by policies that maximise the income levels of fuel poor households and address the price of energy that these households are using. The current disjointed approach to tackling fuel poverty can be transformed into a much more strategic, unified response.

<u>A long, cold wait?</u>

Action to address the energy inefficient housing in which low-income consumers are invariably concentrated is certainly the most sustainable way of eradicating fuel poverty. However, given the scale of the challenge this is necessarily a long-term objective. 2006 saw Warm Front reach 221,630 households – meaning it would take the best part of a decade to tackle fuel poverty at current levels.

The timeframe involved mattered less in the period 1996 to 2003 when the harmonious combination of rising incomes and falling prices drove down fuel poverty levels. However, the pillar of the Government’s fuel poverty strategy reliant on “continuing action to maintain the downward pressure on fuel bills” has long since crumbled. The relentless pace of price rises between 2003 and 2006 has outstripped income growth and outpaced the rate at which energy efficiency and heating improvements can be installed. Even after the price reductions announced in 2007 have taken effect, the average energy bill will remain at £928. As the Government itself has predicted *"the era of cheap energy has gone for ever."*[7] If its fuel poverty strategy is to properly be a strategic response to the problem, that realisation must now be taken on board.

This will of course mean that the long-term focus remains on 'fuel poverty proofing' housing through Warm Front, its devolved equivalents and associated schemes. However, complementary action must now be taken on incomes and the cost of energy in order to rescue progress towards the 2010 target.

The impact of high prices should be cushioned by an appropriate 'safety net' income measure. energywatch supports proposals for extending a Winter Fuel Payment to households under 60 who are already eligible for Cold Weather Payments. This is a readily identifiable group of vulnerable households, representing those on income support premiums because of long term illness or disability, or because they have young or disabled children. This proposal recognises that around 60% of the fuel poor are under 60. DWP have estimated the annual cost of such a payment would be £300m[8]. This is a sizeable amount of money with more austere funding settlements for government departments expected over coming years. However, it is unconscionable that this direct support, to those most physiologically vulnerable to the cold, remains unexplored.

Government must also ensure that mechanisms for uprating benefits payments properly reflect the actual cost of energy.

With regards to action on the cost of energy, energywatch have recommended that the provision of social tariffs – the lowest cost tariff a supplier offers - be made mandatory on all gas and electricity suppliers and have set out the blueprint for how this should happen[9].

Despite pressure from a range of stakeholders, including a recent recommendation from the Treasury Select Committee, the DWP doggedly resists reform of Fuel Direct - the payment facility whereby deductions towards energy debt and ongoing consumption are taken

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[7] Malcolm Wicks, *Hansard*, 23rd January 2007, column 399WH.
[8] Written answer (10 July 2006) 2005-06 prices, assuming the £200 payment for all households.
[9] energywatch has consulted widely on the nature of social tariffs and its report and recommendations are available at: http://www.energywatch.org.uk/uploads/A_Social_Responsibility_the_energywatch_consultation_on_the_nature_of_social_tariffs_in_the_energy_market_report_and_recommendations_9_May_2007.pdf

direct from benefits payments and paid to suppliers. Fuel Direct is presently a last resort facility to recipients of certain benefits who are at risk of disconnection for arrears. However, it has the potential to become a payment method of choice for eligible consumers, and would be better suited to their circumstances than currently available options. Such a move would transform the focus of Fuel Direct from debt resolution to debt prevention.

Competition losers

The competitive market has shown itself to be ill-equipped to recognise and serve the needs of low-income consumers. They are frequently expected to pay more for the gas and electricity they use and are disproportionately affected by the industry's more negligent practices.

Prepayment meters (PPMs) present the most vivid example of this. Despite being the most expensive payment option, PPM use is most common in the poorest households. Where a consumer is using a PPM for both gas and electricity they will on average pay in excess of £100 more per annum than a consumer using direct debit. The price reduction announcements of 2007 have so far seen one supplier abandon its commitment to equalising electricity PPM with its standard credit rates and seen other suppliers increase the differential.

Users of antiquated electricity token PPMs face a further disadvantage. Electricity suppliers need to manually reset their antiquated token meters to reflect price changes. However, suppliers have shown themselves incapable of recalibrating token meters at anywhere near the rate that price increases have taken effect in the last 3 years. This results in a situation where token meter users are forced into an unanticipated debt when these suppliers 'backcharge' their price rises. Backcharging sees suppliers claw back revenue that would otherwise be lost as a result of their inability to recalibrate token meters. In instances where recalibration has not taken place for a year or more this has resulted in an overnight price shock and debt levels that run into the hundreds of pounds. EDF Energy and Scottish & Southern refrained from engaging in this practice from the outset and British Gas followed their lead in December last year, but npower, Powergen and ScottishPower continue to backcharge. Although it has described this practice as "patently unfair", Ofgem has declined to take the robust action required to stamp out this practice.

Political and regulatory pressure in the face of price rise announcements has forced suppliers to develop a piecemeal array of socially oriented products. While a number of these deserve credit, the lack of a common point of reference in the development of these products has led to confusion for those consumers who stand to benefit – confusion over the type of assistance available, the level of assistance offered, the length of time for which the assistance is available and how such assistance can be accessed. The reliance on voluntary approaches also rewards inaction as those suppliers who do most risk placing themselves at a competitive disadvantage. Again, this is a situation that the mandated social tariffs recommended by energywatch – offered in accordance with, but not limited by minimum standards – would address.

<u>A localised approach</u>

DEFRA's *Every Action Counts* initiative seeks to involve community and voluntary groups, clubs and societies in practical environmental and energy saving measures. energywatch also believes that the community and voluntary sector and community-centric groups also have a vital, but under utilised role to play in helping the government meet its fuel poverty targets. Agencies acting at local level often enjoy frequent and often exclusive in-home access to and dialogue with hard to reach consumers, meaning they are much better positioned to identify instances of fuel poverty than an energy supplier or provider of the government's anti-fuel poverty programmes will ever be. These actors will also enjoy a much greater degree of trust than other agencies and so are much better placed to communicate and make less daunting the assistance that is available to hard to reach, vulnerable consumers. Agencies will need practical support to deliver this assistance, but it must represent effective and low cost routes to those consumers who are hardest to reach and least likely to come forward by themselves for support.

Devolution of the fuel poverty strategy to the regional / local authority level would facilitate better integration with and involvement of the community and voluntary sector. Local authorities are also aware of precisely where recipients of certain benefits, poor housing stock and depravation are located within their boroughs, which can make for the accurate targeting of measures to tackle fuel poverty. Many local authorities also have their own energy efficiency programmes, HECA officers, affordable warmth strategies, and Decent Homes objectives, all of which include or would be complemented by a fuel poverty dimension. energywatch therefore agree with recommendation made by the Fuel Poverty Advisory Group for England that fuel poverty targets should feature in the new Local Government Performance Framework.

A coherent strategy to tackle fuel poverty is only achievable if we are fully committed to attack all three root causes of fuel poverty – income, inefficient housing and high prices. What follows from the Energy White paper will determine whether there is the will to achieve the very challenging target of eradicating fuel poverty in the United Kingdom.

Adam Scorer,
energywatch

Since 2003, energy consumers have seen massive rises in their annual energy bills. The average household gas bill increased from £330 in January 2003 to £642 in January 2007 (a 94% increase). Over the same period the average electricity bill increased from £242 to £388 (a 60% increase).

Citizens Advice Bureaux (CABx) across the UK have been assisting an increasingly large number of people who have found themselves unable to afford to heat their homes, with price rises hitting the vulnerable and those on low incomes particularly hard. Meanwhile other areas of essential expenditure, such as water and council tax, have also risen yet benefit incomes and wages have failed to keep pace.

The impact of these trends is reflected in the significant rise in the number of cases relating to fuel debt and disconnection dealt with by our bureaux.

In 2005-6 CABx dealt with approximately 30,000 cases concerning fuel debt repayments. In the first six months of 2006-07 bureaux had already dealt with more than 19,000 enquiries. Extended over the whole year this would translate as an increase of 30%. Similarly, enquiries about the disconnection of fuel supplies have reached 82% of the 2005-6 total in just the first six months of 2006-7.

Individual CAB cases highlight the problems that many households are experiencing, with debt and the threat of disconnection recurring themes:

> A CAB in Leicestershire saw a client, a disabled man in his fifties, who was extremely worried about paying his electricity bill. His electricity supplier had increased their prices by 34% in the last year, meaning that the client was now unable to afford regular electricity payments and was faced with the prospect of getting into debt or self-disconnecting from his electricity supply.

> A Lincolnshire CAB reported a case in which their clients, a young couple in their twenties in rented accommodation with good jobs and a 2-year-old child, had been managing to repay debts which they had previously accumulated. However, the spate of recent household fuel rises have tipped the balance of their precarious finances and pushed them into a state where

> they cannot afford to maintain their repayments at current level. As a consequence they are sinking deeper into debt.

The energy companies have recently announced price cuts, but though these are welcome, they will not alleviate affordability problems. The cuts are small in comparison to recent rises and in some cases were not passed on to those most in need. In some cases the actions of energy companies have made affordability and debt problems worse.

Ofgem estimates that around 25% of all PPM customers are living on incomes of less than £10,000. Despite this, PPM users are often charged more for their fuel.

Some suppliers have made positive moves towards equalizing PPM tariffs with standard payment methods, and in one case PPM customers are even charged less than customers who pay by standard credit.[10] But it remains a shocking reality that on average PPM users continue to pay much more than those who pay by direct debit – on average 12.1% more for gas and 9.5% more for electricity.

In addition, some fuel suppliers have failed to recalibrate token PPM electricity meters in a timely manner and pushed some of the poorest people into debt, showing once again the substandard treatment which these customers often receive from suppliers.

The problem here is the practice of three suppliers – Npower, Powergen and Scottish Power. These companies have failed to adjust token electricity prepayment meters to reflect increases in price, and when they do finally get round to re-setting the meters they back-date bills according to the increased price – saddling the customer with a potentially sizeable debt of which they would have no forewarning.

CABx deal with many of these cases which cause serious financial detriment to clients:

> A Northumberland CAB's client fell into arrears of £250 because his PPM was not automatically updated following price rises. The client, who is in receipt of jobseeker's allowance and housing benefit, is unhappy that he is paying a higher tariff for

[10] Scottish Power now charges PPM electricity customers less than they do for customers on standard credit, British Gas' Essentials tariff charges the same price for half a million vulnerable prepayment customers as it does for Direct Debit customers for both gas and electricity. Scottish and Southern, EDF Energy and Powergen also charge their electricity customers on PPM meters the same price as standard credit customers.

his PPM and yet has still managed to end up falling into debt. The arrears will be repaid at £3 per week but the client is frustrated with this situation (which he found himself in through no fault of his own) as he was intending to switch supplier but will now have to wait until his arrears are below £100 – in about one year's time! In the meantime, the client will have to pay higher costs for his electricity as he will not be able to benefit from cheaper tariffs offered by other suppliers.

A CAB in West Yorkshire reported a case in which their client, a disabled woman with a dependant daughter, changed fuel supplier and promptly received a bill from her old supplier for £243.57. The client had been a customer of her previous supplier for 14 years, and had always paid for her electricity by means of a token meter since she has a very modest income. She considered that such payments covered all her electricity usage but it transpired that her old supplier had not adjusted the meter until long after price rises and this had led to the accumulation of debt. Since the client has very little money to live on the demand for £243 is causing great distress to her and her family. At no time was the client made aware that her token payments were inadequate to cover the electricity used, or that she was building up a debt.

In our opinion, Ofgem has failed to respond in a sufficiently swift and robust way to deliver the best deal for vulnerable customers. Despite their overdue action this practice still threatens 149,000 households across the UK with increasing levels of unexpected debt, and leaves some households facing instant arrears of hundreds of pounds in addition to an overnight price shock when their meter is eventually recalibrated.

Citizens Advice has joined forces with energywatch in campaigning to end this practice of back charging. We continue to urge the suppliers who still back-charge (Scottish Power, Npower and Powergen) to follow the good practice of the other suppliers and act responsibly towards their customers by only implementing price rises when they manually reset meters. Ofgem have now included a requirement in their new Supply Licence proposals that 'all reasonable steps' should be taken to recalibrate PPMs following a change in price. We will be watching with interest to see how suppliers respond to this strengthened requirement when the new supply licences go live.

The solution to these issues lies in more responsible behaviour by energy companies. The new social tariff recently announced by British Gas is a prime example. Under this scheme 750,000 vulnerable customers will be eligible, and prepayment meter customers could see their bills drop by 24.6% or £285 per annum.

In addition to this however, people on fixed benefit incomes need to receive a decent income. The government has set itself extremely challenging target of abolishing fuel poverty for vulnerable households by 2010 – we would argue that it needs to give itself the tools to give it a fighting chance of meeting this target.

We have recommended that eligibility to winter fuel payments should be extended to people under 60 years of age including disabled people, people with a long-term illness, and households with young or disabled children. This measure would help – but is little more than a stop-gap solution. In the long-term it would be better to look at raising levels of benefit income, or perhaps consider uprating benefit levels more closely to fuel prices.

In addition the government could consider proper funding for holistic benefits advice, which would allow people to claim benefits currently unclaimed. Government research has shown that "income improvements were the most important factor in reducing fuel poverty", with 61 per cent of the reduction in fuel poverty since 1996 attributable to improvements in incomes.[11]   Funding holistic benefits advice is therefore the most efficient way of tackling fuel poverty and this exercise would go a long way towards putting extra money in people's pockets and enabling them to pay their bills with dignity.

Teresa Perchard
Citizens Advice

[11] *The UK Fuel Poverty Strategy – 3rd Annual Progress Report 2005*, Defra and DTI, p.27

My message is clear and simple: fuel poverty must be pushed higher up the Government agenda otherwise our country will miss its target to eradicate fuel poverty amongst 'vulnerable' households by 2010, and all households by 2016 (2018 in Wales).

At a recent meeting of the APPG on Poverty and the APPG on Debt and Personal Finance, parliamentarians, fuel companies, industry regulators, voluntary organisations and grassroots activists came together to discuss the human cost of fuel poverty. At that point I imagined that the level of fuel poverty in the UK stood at around 2 million households as reported in the *UK Fuel Poverty Strategy 4th Annual Progress Report.*[12] However a recent report by the National Consumer Council estimates that levels of fuel poverty may now have risen to almost 4 million households.[13]

In my presentation I outlined problems relating to excess winter illnesses and deaths, and the need for updated winter fuel payments. With regard to excess winter illnesses and deaths, it is well documented that there is a relationship between mortality, illness and the conditions in which people live. A home that is too cold can increase the risk of respiratory illness, heart attacks and strokes, and in extreme cold it can cause hypothermia. Although not all excess winter deaths can be attributed to cold homes, countries such as Sweden or Germany have more severe winters than our own, yet they have comparatively lower variation of mortality across the seasons. This suggests that poor housing standards, comparatively low incomes and higher rates of fuel poverty are linked to excess winter deaths in the UK. Last year around 25,000 people died in England and Wales in the winter months. This is more than in any other season. Somewhere between 90-95% of excess winter deaths are people over the age of 65. Pensioners are unnecessarily dying of the cold in the 21st Century. We need to take measures to fight fuel poverty in order to stop this travesty and this requires a combined effort from the Government, fuel companies, industry regulators, local housing authorities and landlords in lowering the cost of fuel bills for vulnerable customers and ensuring that housing is not only energy efficient, but of a decent standard.

Winter fuel payments must reflect higher utility prices as well as increases in council tax charges. As a pensioner, I myself am in

[12] Department for Environment, Food and Rural Affairs (2006) *The UK Fuel Poverty Strategy: Fourth Annual Progress Report*.
[13] National Consumer Council (2007) *Energy Shouldn't Cost the Earth: NCC's Blueprint for Action on Affordable and Sustainable Energy*.

receipt of winter fuel payments, and while the payments are extremely useful in helping me to pay my fuel bills, the amount that I receive has not risen in approximately three years. During this time we have seen the cost of gas and electricity escalate for consumers. While the cost of fuel has more recently come down in price for consumers during 2007, these price cuts are neither in line with initial energy price rises nor the recent drop in the price of wholesale fuel.

Winter fuel payments should be extended to wider vulnerable groups such as low income families with young children, and disabled children and adults living in poverty. The latest DWP Households Below Average Income Survey shows that the numbers of children living in poverty has increased by around 100,000. Rising fuel bills place burdens on families and are an inevitable aspect of child poverty. Young children are especially vulnerable to the cold, and I believe that winter fuel payments must be offered to the poorest families with young children so that we can help to alleviate cold related health problems and fuel poverty.

In an ideal world people would receive an adequate income level regardless of whether they were in work or unable to formally work and in receipt of state benefits. However, in our country millions of people struggle in poverty through inadequate benefit levels that are not tied to wage rises, and through the payment of poverty wages. In this system people who are living in poverty require additional assistance from the Government, and winter fuel payments are therefore crucial in helping people living in fuel poverty to manage their winter fuel bills.

However, my recommendations for the fight against fuel poverty range wider than this, and I agree with many voluntary organisations working in this area that the fight against fuel poverty needs more joined up Government effort alongside improved commercial policy and practice. We need to see the public and private sectors working together more efficiently, and with clear social conscience.

Here are some crucial points that I see as essential in the fight against fuel poverty:

- We need to see the drop in wholesale fuel prices passed down to consumers more quickly.
- The Government must link winter fuel payments to general utility price rises (gas, electricity, water and council tax).
- Winter fuel payments should be extended to vulnerable groups such as low income families with young children.
- Every home should be upgraded to energy efficient standards where the owner/tenant is unable to afford improvements as a result of income poverty. I have seen how this can be achieved

through my work with Knowsley Energy Efficiency Committee and the ‘Heat Streets’ scheme. Before and during 2003 Knowsley accounted for some of the worst fuel poverty problems in the UK, with an estimated 1 in 2 households being affected by fuel poverty in certain areas. This reflected the extensive problems of deprivation and poor housing in the area. From 2003 council housing stock was taken over by Knowsley Housing Trust, and they implemented energy efficiency through loft insulation, cavity wall insulation and central heating. Knowsley Metropolitan Borough Council also did this through their ‘Heat Streets’ scheme with private tenants, firstly on the basis of means testing, and then more generally. Recently Knowsley was stated as the best region in the country for conserving energy – a measure which will impact upon levels of fuel poverty. This structure (which involved grassroots community participation and local knowledge) could be replicated by housing associations across the country.

- More expensive fuel charges for pre-payment meter customers must be scrapped. At the APPG meeting I welcomed the contribution from EBICo Ltd in outlining how fair tariffs could be achieved in reality so that token pre-payment meter customers without a bank account do not pay more for their fuel consumption.
- We need newer, smarter metering, and price rises should not apply to pre-payment meter customers until their meters have been recalibrated. A great deal of debt is caused by backdating price rises. Pre-payment meter customers budget closely for their fuel consumption and should not be faced with large catch-up bills from delayed recalibration.

Tom Best
UK Coalition Against Poverty

Comments made at the APPG meeting on 27 February

Hugh Lee, EBICo Ltd
EBICo are a not-for-profit company set up to help pre-payment meter customers. As far as I am aware we are the only company that do not charge more to pre-payment meter customers than Direct Debit customers. We know that some people want to stay on pre-payment meters, even if they have a bank account, and so we think that they should not be discriminated against and charged more. We are also concerned about debt blocking. We are prepared to take on people's debt to help them get out of debt.

Anna Pearson, Help the Aged
I want to raise a point about heating and insulation. The Warm Front scheme only has a limited amount that it can offer people in grants for the work they need. In around 10% of cases, people are being asked to pay extra money of significant amounts.

Mary O'Brien, National Energy Action
Before privatisation, every town and city had a gas and electricity showroom where there was a freephone line direct to the supplier and a member of staff to offer advice. After privatisation this stopped, but fuel debt problems remained. Right now advice agencies are trying to give the best advice to fuel debt clients that they can, but they lack specialised fuel debt advisors. More training to advice agencies is needed so that there are specialist fuel debt advisors. This must be face-to-face advice because you cannot speak to a supplier without the client present because of data protection issues.

Maxine Frerk, Ofgem
Regarding the recalibration of pre-payment meters. We took a firm line with companies before Christmas and stated clearly what we expected from them in terms of timing of recalibration, replacing the older technology, and better communication. We are continuing to monitor this. With prices now going down it is also important to have recalibration so that customers can benefit from falling prices.

Rachel Snow, Building Society Association
At the moment we have house prices at an all time high and this is affecting customer income. Fuel bills can have a big impact on home owners, particularly those at the lower end of affordability. With rising interest rates, affordability remains a big issue and if we were to see household bills rising it would have an even bigger impact on already restricted household incomes.

Alison Davies, Net Credit Union Development Agency

Credit unions are in a good position to offer budget accounts where people can have their priority debts paid through the credit union so that they are benefiting from better prices (rather than through the use of pre-payment meters).

Credit unions are often in a position to lend people what they require (either in conjunction with energy efficiency agencies as top-up grants, or as a loan) in order to do energy efficiency work on homes. People cannot benefit from lower prices until such work is done.

Judith Higgins, Grassroots Activist
Regarding owner occupiers without central heating who use coal and/or calor gas. One person who has these heating methods bought calor gas three weeks ago at £17.49. On Saturday this price had risen to £20.50.

Another point concerns Warm Front. Three years ago I had five months without central heating or hot water. Warm Front fitted a central heating system into my home, but they never fitted the timer. Despite ringing up, I still do not have a completed system.

In the countryside housing materials are different and they are often made of stone rather than brick. My brother lives in the city in a brick mid-terrace house, and his fuel costs are lower than mine. We have to wear thick jumpers and socks, and these should not be the choices.

Fuel poverty is not just an issue for people on benefit. It is also an issue for people on low wages.

Pat Austin, National Energy Action Northern Ireland
Fuel poverty is higher in Northern Ireland. In 2004 a snapshot taken indicated that even if energy efficiency measures were put in all households, 17% would remain in fuel poverty because of income. Nevertheless, energy efficiency measures are crucial.