Frozen Out

Extra costs faced by vulnerable consumers in the energy market

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Summary

Many consumers in Great Britain are paying far too much for their energy with certain vulnerable groups such as low income, elderly and disabled households particularly likely to suffer extra costs. This report looks at the current gap between costs faced by consumers and current investment in helping vulnerable households reduce their bills, concluding with some recommendations for how this gap could be closed.

The Competition and Market Authority's recent investigation showed that a lack of competition in the market meant consumers overpaid by £1.4bn per year on average but this rose to £2bn in 2015. In addition we estimate that the most inefficient homes to heat are costing around £3.5bn. Inefficiencies in price and consumption of energy are therefore costing GB consumers around £5.5bn, about £200 per household.

**Figure 1. Extra costs faced by GB energy consumers**

<table>
<thead>
<tr>
<th>Vulnerable groups affected in particular</th>
<th>Average annual cost</th>
<th>No. households affected</th>
<th>Total annual cost</th>
<th>Vulnerable groups affected in particular</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income, low qualifications, elderly</td>
<td>£140</td>
<td>18.5 million</td>
<td>£2bn</td>
<td>Low income, low qualifications, elderly</td>
</tr>
<tr>
<td>Private renters (young, low income)</td>
<td>£600</td>
<td>5.9 million</td>
<td>£3.5bn</td>
<td>Private renters (young, low income)</td>
</tr>
<tr>
<td>Elderly, young children, disabled, low income</td>
<td>£230</td>
<td>11.9 million</td>
<td>£3.5bn</td>
<td>Elderly, young children, disabled, low income</td>
</tr>
<tr>
<td>Elderly, no qualifications, long term illness</td>
<td>£30-40</td>
<td>4 million</td>
<td>£140m</td>
<td>Elderly, no qualifications, long term illness</td>
</tr>
<tr>
<td>Low income, families, pensioners</td>
<td>£30-40</td>
<td>2 million</td>
<td>£70m</td>
<td>Low income, families, pensioners</td>
</tr>
</tbody>
</table>

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1 Average cost from analysis of Ofgem standard tariff figures, Dec 2016. Households affected from Ofgem estimate of 66% on standard tariffs, applied to estimated 28 million GB customers. Total cost in 2015 and vulnerable groups from CMA investigation 2016.
2 Average cost from estimate in ACE Cold Man of Europe 2015 that E-G rated homes cost £1,750 which is 56% more than A-D. No of GB dwellings with E-G rating totalled from English Housing Survey 2017, Scottish Housing Condition Survey 2016 and our analysis of National Energy Efficiency Data for Wales. Total cost from multiplying average cost and households affected.
3 British Gas consumption calculator estimates 40-60% increase in electricity consumption from being at home during the day. Average cost found from adding 50% to average electricity bill (Ofgem, Infographic: Bills, prices and profits, Jan 2017) with a standing charge of £100 removed as this part of the bill is unaffected by consumption (maximum charge for big 6 - MoneySuperMarket, How is your energy bill calculated, 2014). No. of households from applying 44% at home during the day in English Housing Survey, 2016, to all GB households.
4 Average cost from DECC Smart meter roll-out: Impact Assessment, 2014, number affected from applying 14% of users in DECC Early Learning Project 2015 who had stopped using consumption data, to all GB consumers. Total cost from multiplying average cost and households affected.
5 Average cost from estimate of cost of 30% peak time consumption in Sustainability First Smarter, fairer, Mar 2016. Vulnerable groups affected from our analysis of Low Carbon London data, Jun 2015. No. of households from applying proportions in this data to all GB households. Total cost from multiplying average cost and households affected.
There are a number of policies to help vulnerable consumers with their energy bills. The current suite of direct payments, discounts and help with energy efficiency improvements costs over £3bn a year, funded from a mixture of taxation and consumer bills. However, some elements, such as the Energy Company Obligation, are decreasing while others are targeted at very specific groups. The Winter Fuel Payment for pensioners represents the majority of bill support at over £2bn. This leaves very little of the budget for supporting working age vulnerable households, particularly in relation to the extra costs they may face.

Figure 2. Current support for GB energy consumers
All figures relate to 2015-16 unless otherwise stated

<table>
<thead>
<tr>
<th>Vulnerable groups benefitting</th>
<th>No. households benefitting</th>
<th>Average annual benefit</th>
<th>Total annual cost</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income pensioners</td>
<td>1.35 million</td>
<td>£140</td>
<td>£190m</td>
<td>Ofgem Warm Home Discount Annual Report Nov 2016</td>
</tr>
<tr>
<td>Working age low income households</td>
<td>840,000</td>
<td>£140</td>
<td>£120m</td>
<td>DWP Winter Fuel Payment Statistics, 2016</td>
</tr>
<tr>
<td>Pensioners</td>
<td>8.7 million</td>
<td>£240</td>
<td>£2.1bn</td>
<td>DWP Cold weather payments end of year report, 2016</td>
</tr>
<tr>
<td>Low income, disabled</td>
<td>130,000</td>
<td>£30</td>
<td>£4m</td>
<td>BEIS ECO Impact Assessment, 2017</td>
</tr>
<tr>
<td>Low income</td>
<td>1 million (over 5 yrs)</td>
<td>Up to £300</td>
<td>£640m</td>
<td>Total figures from eas.org.uk/en/home-energy-efficiency-programmes-for-scotland-heeps_50558/, average benefit from energysavingtrust.org.uk/scotland/grants-loans/heeps/</td>
</tr>
<tr>
<td>Low income</td>
<td>14,000/yr</td>
<td>£350</td>
<td>£69m</td>
<td>Total figures from: gov.wales/topics/environmentcountryside/energy/efficiency/warm-homes/, average benefit from Welsh Government Nest Annual Report 2015-16</td>
</tr>
<tr>
<td>Low income, Pensioners</td>
<td>8,000/yr</td>
<td>£408</td>
<td>£45m</td>
<td>ofgem.gov.uk/publications-and-updates/</td>
</tr>
<tr>
<td>PPM customers (low income)</td>
<td>4.5 million</td>
<td>£80</td>
<td>£320m</td>
<td>BEIS Fuel poverty statistics, 2016</td>
</tr>
</tbody>
</table>

As a result, we are seeing fuel poverty in England rising for the first time since 2009 and National Energy Action’s figures show that the number of fuel poor households living in cold homes has risen by half a million across the UK in the last five years. Certain vulnerable groups are more affected. While 11% of households (in England) are now in
fuel poverty, this rises to 17% of families with children and 22% for lone parents. Our analysis of the Family Resource Survey has found that disabled households are almost three times as likely as other households (20% and 7% respectively) to be struggling to pay for their energy.

Looking at the most recent English Housing Survey, Citizens Advice found that a significant number of lower income households are reporting difficulty in paying for their energy. Single parent households are particularly struggling (42%). Around a quarter of all households on low and middle incomes say they are finding it difficult to pay for energy. A recent Extra Help Unit case shows what this can mean for a household:

*The consumer was struggling to pay for energy consumption at an all-electric property, and had accumulated a debt of £700. As a result she contacted her supplier and asked that a prepayment meter was fitted to help her budget as she was reliant only on her state pension. The consumer’s daughter contacted the EHU after she had visited her mother unannounced and discovered that she was self-rationing her heating to stay warm. The consumer was adamant that she wanted the prepayment meter to remain as she didn’t want her debt to increase again.*

**Policy Recommendations**

- **Price guarantee for vulnerable consumers.** Extend the safeguard tariff for prepayment customers to all those credit customers who are eligible for the Warm Home Discount. If suppliers fail to engage their customers then all remaining disengaged consumers are moved onto the safeguard tariff in 2020.
- **Local energy strategies.** Better integration of local energy schemes with other government support; more local support for community groups setting up generation projects; Citizens Advice to provide guidance to councils setting up supply companies
- **Renters Energy Efficiency Fund.** The UK and devolved governments to strictly enforce the energy efficiency standards for all rented homes with government support for more expensive improvements.
- **Minimum standards for smart meter support.** UK Government to establish industry-wide standards for follow-up support to vulnerable consumers.
- **Filling the fuel poverty gap.** UK and devolved governments to work with charities, local government, the energy industry and each other to ensure all vulnerable fuel poor households get help reducing bills.

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15 DWP *Family Resource Survey* 2015
16 DCLG *English Housing Survey* 2015
17 The Extra Help Unit is a specialist team of caseworkers investigating energy and post complaints on behalf of vulnerable consumers.
Extra costs in the energy market

In this section we explore in more detail the potential extra costs on energy bills and which groups of consumers are more likely to be losing out.

Ofgem define a vulnerable energy consumer as someone who is:

- Significantly less able than a typical consumer to protect or represent his or her interests in the energy market;
- and/or significantly more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial\(^\text{18}\)

We look at the consumers who are facing higher energy bills due to their circumstances and characteristics. We also look at how certain groups of consumers could be affected in the future as technological advances such as smart meters provide new ways for consumers to win and lose in the market.

Consumers paying too much for their energy

The driving principle behind the liberalisation of the energy market in the 1990s was that competition between energy suppliers for customers would drive down prices. However, 25 years on the Competition and Market Authority (CMA) has acknowledged that while the market is offering very competitive prices, the majority of consumers are not accessing them.

The CMA found that the difference between a supplier’s cheapest and standard tariffs is around £130 per year on average and up to £380 in some cases\(^\text{19}\). In December 2016, Ofgem released figures showing that 66% customers are still on the more expensive standard tariffs, equating to around 18.5 million customers\(^\text{20}\). Our recent analysis shows that these customers are paying just over £140 more on average than those on the cheapest deals\(^\text{21}\).

Despite the financial benefits of switching, only 27% of households have ever switched tariff with the same supplier, and less than half (44%) have ever knowingly switched supplier\(^\text{22}\).

Even more concerning are the characteristics of those who are least likely to switch supplier. Figure 3 below shows that only 20% of elderly and low income households have switched supplier, while 23% of disabled customers have switched, compared to around

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\(^{18}\) Ofgem vulnerability strategy

\(^{19}\) CMA Final Report 2016

\(^{20}\) Ofgem standard tariff figures, Dec 2016.


\(^{22}\) CMA Final Report 2016
a third of younger and better off households. Our recent analysis found that the low income pensioners and families with children are paying an extra £250m through not switching tariffs.\textsuperscript{23}

**Figure 3. Proportion of consumers who have switched in last three years by demographic**

![Proportion of consumers who have switched in last three years by demographic](Image)

*Source: CMA survey data 2015*

The CMA found that price comparison websites are becoming increasingly important for access to the best deals. This means that consumers who feel less confident using these sites or do not have access to them are less likely to be able to access the best deals.

*Joan, 80, came to her local Citizens Advice in the West Midlands after she received a tariff renewal offer from her energy supplier. She is retired and lives alone in her own home which she owns outright. She wondered if she was getting the best deal from her supplier and if she could save any money by switching. Joan does not have access to the internet so the adviser looked online to find her the best deals. They discovered she could save over £200 a year by switching to another supplier. Joan then rang the company to sign up for the deal, only to be told that she needed to have an email address and that the account had to be managed online. She was left feeling angry and discriminated against as she does not know how to use a computer.*

Households living in inefficient homes to heat

A consumer’s energy bill is driven by both price and consumption. Our analysis of the English Housing Survey shows that some groups of consumers are having to use far more energy than others due to their circumstances. Energy efficiency is measured through the Standard Assessment Procedure (SAP) rating (a Reduced Data SAP is applied to existing dwellings) which looks at how much energy a property will consume based on its characteristics\(^{24}\). The SAP (and RDSAP) produce a numerical score which is converted into a rating from A to G with A being the most efficient houses and G the least.

The Association for Conservation of Energy (ACE) estimates that the extra cost of heating a property in bands E to G is over £600, with this average cost rising significantly as the rating decreases. The average required energy expenditure across the housing stock is £1,210. In E-rated homes, it is £1,640, in F-rated homes, it is £2,140, and in G-rated homes, it is £2,670, over twice the national average\(^{25}\).

While overall energy efficiency levels have improved, there are still 5.3 million dwellings in England with a band E rating or below. Scotland’s latest housing condition survey\(^{26}\) showed that 360,000 homes are rated E or below. Our analysis of National Energy Efficiency Data tells us there were a similar number - around 400,000 homes in Wales in 2012\(^{27}\). If this proportion in Wales has been maintained then just under 6 million homes in Great Britain are in the bottom three efficiency bands.

In 2014 the UK Government found that English households on low incomes and either under the age of 34 or over the age of 65 were least likely to have made energy efficiency improvements\(^{28}\).

Looking at tenure, further analysis of the surveys shows that private rented households are most likely to live in an inefficient home - see figure 4 below. A quarter of private renters across England and Scotland are living in band E to G properties. This is slightly higher than owner occupiers but three times more that social renters. Our estimate is that this equates to 1.3 million privately rented homes in Great Britain\(^{29}\).

\(^{24}\) [gov.uk/guidance/standard-assessment-procedure](http://gov.uk/guidance/standard-assessment-procedure)
\(^{25}\) ACE *Cold Man of Europe* 2015
\(^{26}\) [Scottish Housing Condition Survey 2016](http://www.scottishgovernment.gov.uk/)
\(^{27}\) [National Energy Efficiency Data](http://www.energystorage.info/)
\(^{28}\) DCLG *English Housing Survey - Energy Performance* 2014
\(^{29}\) Total of figures from Scottish and English surveys and 25% of Welsh private rented dwellings from [Dwelling stock estimates](http://www.energystorage.info/).
Looking at tenure analysis in England we know that private renters are more likely than any other tenure to be under the age of 34 (48%) and in work (71%) but with lower incomes - average earnings that are £6k less than the national mean income and £13k less than owner occupiers.30

Households that use more energy in the daytime

A further consumption cost is borne by certain households who, due to their circumstances, are more likely to be at home during the day. This includes families with very young children, elderly people and many people with a disability or long term illness. In calculating fuel poverty statistics, the UK Government estimates that this can add around 50% to the amount of time these consumers need to have their home heated.31 British Gas estimates that households with someone at home during the day use between 40% and 60% more electricity. Adding 50% to the average electricity bill would mean an extra £230 on the average family’s bill.32

Our analysis of the English Housing Survey found that 44% of households are in circumstances that mean someone is at home during the day. If this proportion was consistent across Great Britain this would be equivalent to just over 12 million GB households.

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30 DCLG Tenure trends and cross tenure analysis 2016
32 British Gas consumption calculator. Average cost found from adding 50% to average electricity bill (Ofgem, Infographic: Bills, prices and profits, Jan 2017) with a standing charge of £100 removed (maximum charge for big 6 - MoneySuperMarket, How is your energy bill calculated, 2014).
Consumers left behind by technology

In addition to the extra costs currently faced by vulnerable consumers in the energy market, there are a number of innovations in technology that could leave certain groups of consumers further behind.

The UK Government’s current ambition is for every household to be offered a smart meter by 2020. These meters will communicate information about consumption to suppliers and should eliminate the need for meter readings and estimated bills, reducing supplier costs and therefore bills for all consumers. Smart meters will be installed with an In Home Display (IHD), providing consumers with near real time information about their usage.

The UK Government expects domestic consumers to reduce consumption by 2-3% in response to the information provided by the IHD (although they acknowledge that some studies predict far greater reductions). On an average bill this would equate to around £30-£40 a year. However, the government’s early learning project found that elderly and low income households as well as people with a disability or long term illness were all least likely to continue engaging with their IHD after the installation and would need more help from suppliers and installers to understand the information. In total they found 14% of users had stopped viewing their consumption data after a few days. This could mean around 4 million households in GB missing out if this response was replicated across all consumers.

33 DECC Smart meter roll-out: Impact Assessment 2014
34 DECC Early Learning Project 2015
As well as providing useful information about consumption, smart meters will allow suppliers and consumers to enter into ‘time of use’ contracts where energy is priced differently at peak and off peak times. Many vulnerable consumers could benefit from a pricing structure that rewards the flatter, more constant consumption patterns of households where someone is at home during the day. However, many households may end up paying more and be unable to change their consumption pattern.

The Low Carbon London project collected consumption data of around 5000 households over two years in order to gauge the likely impact of time of use tariffs on households. Our analysis (see Figure 6 below) found that while on average lower income groups would benefit from peak time pricing with no behaviour change, many lower income groups had a greater spread of peak time consumption. This means these low income groups are also more likely to see a significant cost from time of use tariffs.

Under one hypothetical tariff, a Sustainability First study identified that 25% of consumption in peak time is roughly the mid-point at which a peak time tariff would have little or no effect on bills. A variance of 5% was predicted to produce a gain/loss of around £30-£40 a year. While most households fall within a few percent of this, the graph below shows the proportion of each ACORN demographic group that are more than 5% from this middle value - the proportion of big winners and losers on current consumption patterns.

Figure 6. Time of Use Tariff "Winners & Losers": Percentage of sub groups who use energy during peak times

Source: Low Carbon London data 2014

35 UK Power Networks, Smart meter energy consumption data in London households 2015
36 Sustainability First, Smarter, fairer, Mar 2016.
The chart shows higher proportions of big winners but also big losers in the lower income demographic grades. Around 10% of very low income households on estates, young and struggling families as well as better off but elderly consumers could all potentially be paying at least £30-£40 more a year under a time of use pricing structure. In all, the data suggests that just over 7% of households will be exposed to this extra cost, which equates to just over 2 million households.

In the future, suppliers may seek to introduce dynamic time of use tariffs where electricity prices change at different times in the day and year, or in response to a period of low renewable energy supply (e.g. when the wind is not blowing). Consumers are expected to respond to these price signals by reducing their consumption. The Low Carbon London project found that households on lower incomes were, on average, less likely to respond to dynamic time of use signals, with the difference in cost between the best and worst responders estimated at almost £200 a year\textsuperscript{37}.

More work is needed in this area to understand the winners and losers but given that the best response to such tariffs depends on the possession of smart appliances\textsuperscript{38}, which currently cost thousands of pounds, it is clear where some of the barriers lie.

\textsuperscript{37} Imperial College London \textit{Residential consumer attitudes to time varying pricing} 2014
\textsuperscript{38} BEIS \textit{A smart, flexible energy system} 2016
Current support for consumers

Over the years the UK and devolved governments have introduced a number of schemes to help certain groups of households. This section provides a summary of the current support on offer.

Warm Home Discount

In 2015-16 the Warm Home Discount provided rebates of £140 each year for up to 2.2 million energy consumers who are likely to be in, or at risk of, fuel poverty. The UK Government spending review has indicated that the scheme will continue at a similar level until 2020/21.

The majority of recipients are in the core group, which is made up of low income pensioners in receipt of pension credit. The remaining households are in the broader group. The government’s minimum eligibility criteria for the broader group includes low income families with a very young or disabled child.

The process for identifying eligible recipients is, however, different for the core and broader groups. Identification of the core group is done through a data matching exercise. DWP data is matched against obligated energy supplier customer lists, and payments are made automatically to eligible pensioners. In contrast, consumers in the broader group have to apply for the rebate each year within a set timeframe. There is also an annual cap on the number of people in the broader group who can benefit.

This inevitably means that take-up for the broader group is much lower than for those on pension credit. Last year the Warm Home Discount went to 1.35 million pensioners in the core group but just 840,000 working age households in the broader group. We estimate that around 4 million households in total are eligible, which means that almost 2 million more households in the broader group are currently missing out. Fuel poverty statistics show that, in England, members of this working age group are now more likely to be struggling with their bills than the core group.

Furthermore, only suppliers with over 250,000 customers are required to provide the Warm Home Discount. This means low income consumers can face hidden costs and confusion when switching. If they transfer to a supplier who does not offer the rebate or where the supplier has already reached its annual target for Warm Home Discount spend, these households run the risk of cancelling out any potential benefit they might be gaining from moving to a cheaper tariff.

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40 DECC Warm Home Discount Scheme 2016
41 Although there are provisions in the Digital Economy Bill currently going through parliament that will offer a similar data-matching process for this broader group
42 Our analysis of ONS Family Resources Survey 2016
43 BEIS Fuel poverty statistics, 2016
Winter Fuel Payment

The Winter Fuel Payment is a universal benefit which is paid annually to all people of pensionable age. The one off payment ranges from £100 to £300 depending on personal circumstances and age, but is not means tested.

Eligibility is determined by the female pensionable age, which is currently 63 and will rise to 65 by 2018 and 66 by 2020. Due to these changes, the number of eligible people is falling. Winter fuel payments cost the UK Government £2.1bn in 2015/16 with 8.7 million pensioner households receiving an average of £240.44

The universal nature of the benefit means that the policy is successful in reaching pensioners who are fuel poor. However, the majority of the beneficiaries are not fuel poor (only 5% of over 60s in England are now considered fuel poor45).

Cold Weather Payment

Cold Weather Payments are grants paid to qualifying households in the event of consistent sub-zero temperatures in the winter months (1 November to 31 March). Payments of £25 are provided in arrears for every 7 day period where the temperature falls below 0 degrees celsius.46

People who are eligible for Cold Weather Payments must be in receipt of qualifying benefits (Pension Credit, Income Support, income-based Jobseeker’s Allowance, Income-related Employment and Support Allowance and Universal Credit). There are additional qualifications for those on all the aforementioned benefits (other than Pension Credit) which are linked to disability or severe health conditions, pensioner premiums, dependent children with a disability, or dependent children under the age of 5.

There is a strong correlation between those households eligible for Cold Weather Payments and those in fuel poverty. However, the payments are calculated locally and are based on unpredictable weather patterns, so the amount available to those who qualify varies hugely from year to year. For instance, the winter period in 2013/14 was very mild resulting in just £27,500 worth of payments, that all went to one region47. This was in contrast to the preceding year which saw much lower temperatures triggering payments of £146 million to qualifying households across the UK48. Last year, 133,000 people received £3.9 million worth of payments49.

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44 DWP Winter Fuel Payment Statistics, 2016
45 BEIS Fuel poverty statistics, 2016. Under the 'ten percent' fuel poverty definition still used by devolved governments, the estimated number of older people in fuel poverty in Wales and Scotland is higher
46 gov.uk/cold-weather-payment/overview
47 DWP Cold weather payments statistics, 2014
48 DWP Cold weather payments end of year report, 2013
49 DWP Cold weather payments end of year report, 2016
Energy Company Obligation (ECO)

In addition to direct financial payments, the UK Government provides vulnerable households with energy efficiency measures through the Energy Company Obligation. Introduced in January 2013, the obligation legally binds larger energy suppliers to actively provide energy efficiency measures to domestic properties. The scheme aims to deliver energy efficiency improvements to homes across Great Britain. It has three areas of focus - low cost insulation for any home that will benefit, improvements in deprived areas and measures aimed at fuel poor households. With progress largely measured in carbon savings.

ECO is the latest version in a succession of obligations on GB suppliers that goes back to the Energy Efficiency Standards of Performance introduced in 1994. The immediate predecessors of ECO were the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme which correspond to the first two areas of focus above.

The third strand of the programme is known as Affordable Warmth which helps low income homeowners and private renters to either wholly or partially cover the costs of energy efficiency measures in their homes, such as new boilers and insulation. It was introduced following the end of the Warm Front scheme in England (see below).

Figure 7 below shows that the delivery of Affordable Warmth measures was initially very high, with the number of measures installed rising to a peak of just over 40,000 in November 2013. However, the number then fell away sharply to just under 6,000 measures in September 2014 as qualifying suppliers started to hit their targets for the first period of ECO. This appears to be because they initially prioritised delivery of Affordable Warmth measures over other aspects of ECO.

This graph illustrates one of the weaknesses of using a system of targets to deliver energy efficiency measures. As soon as it becomes clear that a target will be reached, the number of measures installed drops dramatically. The structure also incentivises suppliers to find the easiest or cheapest to treat households, which often means those who need the most help can miss out.

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51 Citizens Advice Help to heat consultation response, Oct 2016
Figure 7. Number of Affordable Warmth measures introduced Jan 2013 to Sep 2016

Source: Green Deal and Energy Company Obligation (ECO): headline statistics data tables, DECC, November 2016

The total funding for this obligation has been reduced, with the annual budget set at £640m from this year. Between 2008 and 2015 annual funding for the supplier obligation was maintained at a steady annual rate of around £1.2-1.3bn per year\textsuperscript{52}. ECO was reduced in 2015 to around £870m, with the UK Government proposing a further reduction from 2017. However these changes do come with an increased focus on fuel poor households, with the Affordable Warmth element taking the majority of the funding (£450m) from 2017\textsuperscript{53}.

\textsuperscript{52} DECC Evaluation of CERT and CESP 2014 - CERT and CESP estimated spend of £6.1bn over 5 years, House of Commons Library ECO, Energy Company Obligation 2015 - ECO 2012-15 estimated at £1.3bn per year.\textsuperscript{53} DECC Help to heat consultation 2016
**Government funded programmes**

In addition to supplier obligations, there have been national energy efficiency schemes for fuel poor households in Great Britain for over 25 years. In 1991 the UK Government set up the Home Energy Efficiency Scheme (HEES) to provide insulation for low income homes across Great Britain. In 2000 this scheme was devolved into separate schemes in the three GB nations - Warm Front in England, HEES (Wales) and Central Heating Programme and Warm Deal in Scotland\(^{54}\).

Warm Front provided grants of up to £3,500 per household (£6,000 for non-gas homes) to install energy efficiency measures in vulnerable households in England. Across its lifetime the scheme provided assistance to 2.3 million households\(^ {55}\) with an estimated average saving of £300 a year on their energy bills\(^ {56}\). The annual budget was £345m before it was tapered down in 2010 and closed in 2013. As mentioned above, the UK Government introduced the Affordable Warmth element to the supplier obligation to provide help to fuel poor households from 2013. These funds are available to consumers across GB.

Both Scottish and Welsh governments continue to provide versions of the schemes that started in 2000. These complement their publicly funded schemes with funding leveraged from the Affordable Warmth programme.

In 2016/17 Scotland is delivering £117 million of support for energy efficiency measures through their Home Energy Efficiency Programme for Scotland (HEEPS)\(^ {57}\). £50 million of this is allocated to local authorities to target their own fuel poor residents (HEEPS: Area Based Schemes) while £19 million is reserved for a national scheme (HEEPS: Warmer Homes Scotland) allowing fuel poor private sector households to apply for funding. The ambition is to complement this investment with £120m of ECO funding. The other £48m is in the form of loans to owner occupiers and landlords. The Scottish Government have committed to maintain this level of funding next year\(^ {58}\).

Similarly, the Welsh Government runs the Warm Homes programme (including both Arbed and Nest schemes) which provides funding for both local authorities and individuals to get advice and grants to improve their homes. Last year these schemes invested £45 million in improving over 8,000 homes\(^ {59}\). Arbed complements EU development funds with £19m of Welsh Government money to support local and community schemes across Wales. Arbed focuses on supporting projects in deprived areas but all households in those areas can potentially benefit from these measures. Nest is the demand-led national scheme that leverages in ECO funding with £25.5m of public money to target measures at fuel poor households.

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\(^{54}\) National Energy Action *Fuel Poverty Monitor* 2016  
\(^{55}\) HoC Library *Warm Front Scheme*, 2013  
\(^{56}\) National Audit Office *The Warm Front Scheme*, 2009  
\(^{57}\) eas.org.uk/en/home-energy-efficiency-programmes-for-scotland-heeps_50558/  
\(^{58}\) gov.scot/Publications/2017/01/2768/10  
\(^{59}\) gov.wales/topics/environmentcountryside/energy/efficiency/warm-homes/?lang=en
**Competition and Market Authority remedies**

Following their extensive investigation into the energy market, the CMA proposed two remedies aimed at vulnerable and disengaged consumers\(^{60}\):

1. **Prepayment price cap**
   The first, an interim cap on prepayment meter costs, is designed to lower the premium charged to prepayment customers compared to people with other payment types. This follows recognition from the CMA that prepayment consumers face particular barriers to a competitive market, which were not likely to improve until fully operational smart meters are in place. The cap is set at a level that is estimated to save prepayment customers around £80 a year\(^{61}\).

   The cap is intended to be a stop-gap measure (running from 2017 until 2020) which will immediately reduce financial detriment to consumers until longer term remedies, such as the introduction of interoperable smart meters, start to take effect. While this remedy will help prepayment consumers, the majority of vulnerable and disengaged consumers currently pay for their energy via a credit meter - seven in ten fuel poor households pay for their energy through a credit arrangement\(^{62}\).

2. **Disengaged consumers database**
   The second remedy proposed by the CMA is to compile a database of ‘disengaged’ consumers (controlled by Ofgem) who have been on a standard variable tariff (SVT) with a supplier for over 3 years. Details of these consumers would then be shared with other energy suppliers allowing them to send written marketing materials offering alternative tariffs. People on the list would have the right to opt out of receiving marketing, and would have to specifically opt in to receiving electronic communications from alternative suppliers. The database is set to be officially launched in 2018.

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\(^{60}\) Competition & Markets Authority *Energy Market Investigation*, Jun 2016

\(^{61}\) ofgem.gov.uk/publications-and-updates/ofgem-sets-prepayment-price-cap-protect-over-four-million-households-least-able-benefit-competition

\(^{62}\) BEIS *Fuel poverty statistics*, 2016
Policy Recommendations

Our research has shown a complex picture of extra costs faced by GB consumers, with total costs going into billions. Certain groups of consumers including low income households and pensioners, face particularly difficult barriers and are suffering acute costs as a result.

It is clear that the amount of investment in protecting consumers does not match the costs faced by vulnerable households. This gap widens substantially for working age households when winter fuel payments (which are only available to pensioners) are discounted.

This final chapter lays out some possible ways to better target the consumers who find themselves least able to engage in the market and bring their energy bills down to an affordable level.

Price guarantee for vulnerable consumers

Consumers who are not engaging in the market are paying far too much for their energy. While the CMA predicts that this group will reduce, as a result of their remedies and the smart meter rollout, there remains a strong case for an intervention to protect those households who have been left behind.

Citizens Advice recommend that the safeguard tariff for prepayment customers be extended to all those credit customers who are eligible for the Warm Home Discount (low income households with a young child, someone suffering from health condition or pensioners).

We will monitor industry efforts to engage all other customers. If by 2020, suppliers have failed to deliver, we propose that all remaining disengaged consumers (who have been on a standard tariff for three years or more) are moved onto the safeguard tariff. This gives suppliers one last opportunity to tackle the problem themselves.
Local energy strategies

Local government is particularly well-placed to engage vulnerable consumers in the energy market. As an example, Islington Council currently identifies around 3000 vulnerable residents each year who are in need of support with paying their energy bills and heating their home as part of its SHINE referral scheme\(^\text{63}\).

The public also trust their local authority twice as much (56%) as energy companies (27%) and the trust gap grows for certain vulnerable consumer groups: 58% versus 22% for pensioners and 49% versus 15% for Warm Home Discount recipients\(^\text{64}\).

Many local authorities are starting to recognise the benefits that cheaper energy can bring for vulnerable residents. There has been a sharp rise in the number of local schemes to make energy more affordable. In their recent publication\(^\text{65}\) on this increasing appetite for ‘local energy’, Ofgem categorised local schemes as:

1. Local services (collective switching, energy efficiency/fuel poverty schemes)
2. Local generation (local renewable projects that provide revenue for local schemes)
3. Local supply (supplying energy with emphasis on addressing fuel poverty)

Ofgem make a distinction between community energy and local energy. However, we think that any local scheme aimed at reducing energy costs for residents should be included here. This includes local generation schemes that are developed exclusively by and for a local community as well as district heating schemes that supply heat (as opposed to energy) to a set of dwellings.

This area is already developing very quickly and more work needs to be done by governments, consumer bodies and communities to establish the best way for this increasing trend to deliver cheaper and more sustainable energy for consumers, particularly those that have not benefitted from competitive markets until now.

However, we have highlighted some key areas where more immediate change will be possible:

**1. Local services**
We believe local services could interact better with the Energy Company Obligation, harnessing the funding from the supplier obligation with the local knowledge of councils. The UK Government has recently announced that suppliers will be able to discharge up to 10% of their obligations to install energy efficiency measures through local referrals. Given local authorities’ first hand interaction with their vulnerable residents, we would like to see this percentage increased.

\(^{63}\) islington.gov.uk/environment/energy-services/affordable_warmth
\(^{64}\) GFK *Energy Market Investigation*, 2015
\(^{65}\) Ofgem *Local energy in a transforming energy system*, 2017
Rather than asking smaller suppliers to set up their own schemes, we believe a more efficient use of funds would be for these suppliers to contribute to an innovation fund for local councils and organisations to deliver energy efficiency measures on their behalf. This fund would be administered by the UK Government for England and the devolved governments for their respective nations.

We would also like to explore how the governments can help local authorities raise awareness of collective switching schemes and better integrate their support with local schemes. This could include, for example, referrals from the personal budgeting programme that is part of universal credit.

2. Local generation
We would like to see councils support local generation by helping community groups better understand what might be required in the development of any scheme, such as any planning permission required, advice on available funding streams and how schemes could work alongside other local programmes.

3. Local suppliers
We will explore working with local government to provide guidance on how to ensure vulnerable residents receive the right support and have access to better prices. We also support the suggestion made by Ofgem in their publication that consumer outcomes would be improved if it was easier for suppliers to obtain permission to focus their fuel poverty tariffs on local residents.

For district heating, we would like to see regulations introduced to ensure consumer outcomes are protected in this market.
Renters Energy Efficiency Fund

(*England and Wales only*)

The Energy Act 2011 introduced a legal requirement for all rented properties to have an energy efficiency rating of at least Band E by 2020, and all new tenancies by 2018. This was estimated to save renters in fuel poverty an average of £600 a year.

However, through regulations published in February 2015, landlords have been exempted from taking any action to improve the energy efficiency of their property that would incur a cost. With the Green Deal scheme finished, it is unlikely that the minimum standard will be reached by 2020 for all F and G rated rented homes.

Citizens Advice believes that these improvements represent a reasonable obligation to their tenants, and calls on the UK and devolved governments to strictly enforce the energy efficiency standards for all rented homes where the cost of increasing to Band E by 2020 would not exceed £5,000. However, we recognise that around 10% of properties in the private rented sector will require more expensive improvements. We therefore propose that Renters Energy Improvement Funds are established in England and Wales by increasing the Buy To Let stamp duty premium from 3% to 4%, raising an additional £210 million. With the next phase of the Welsh Government’s Nest scheme beginning in 2017, the establishment of such a fund could facilitate a move towards focussing grants from the future demand-led scheme on owner occupiers.

Minimum standards for smart meter support

In 2014 Citizens Advice set out a number of measures that suppliers could take to help vulnerable consumers use the information from their smart meter. This included an emphasis on providing tailored one-to-one support spread over a number of short follow up sessions and using community groups to drive engagement.

Our recent research in *Smart Support* found that there is still very little one-to-one support being offered to vulnerable consumers and no suppliers currently plan to monitor consumption to see if vulnerable consumers are getting the most out of their meter. This risks excluding a group of consumers who potentially could benefit the most from the new technology.

We recommend that the UK Government to establish industry-wide standards on follow-up support for vulnerable consumers. The government have set up a working group to develop principles for post-installation support. We believe these should inform standards against which industry performance in this area can be assessed.
Filling the fuel poverty gap

If delivered in full, we hope the measures outlined above will cut extra energy costs for a significant number of consumers.

However, we know from the UK Government’s fuel poverty statistics that there are particular groups of consumers for whom these excessive costs mean a struggle to pay the bills and subsequently the heating is turned off even when there are health risks of doing so.

The current structure of the Energy Company Obligation means that many of the households that need the most help are passed over in favour of properties that are easier to treat. Suppliers are also incentivised to cease activity once their target is reached, which can have a knock on effect on the supply chain in the energy efficiency market as income streams are harder to predict. Meanwhile the total support with energy bills for working age households is currently a different order of magnitude to the extra costs many are facing.

We believe more can be done to improve the energy efficiency offer for households on low incomes containing vulnerable consumers. Particularly in England where households no longer benefit from a government funded scheme.

We also think that there is an imperative to offer more direct financial support to fuel poor working age households, particularly until they receive efficiency improvements necessary to bring their consumption below the median.

Powers over energy efficiency obligations and financial support with bills are set to be devolved in Scotland. In anticipation the Scottish Government are consulting on how to use the new powers to more effectively target support for fuel poor households\(^\text{68}\).

We believe the UK and devolved governments should be working with charities, local government, the energy industry and each other to explore how to ensure all GB households can afford to pay their energy bills without turning their heating or appliances off. Citizens Advice stands ready to play a role in developing this strategy.

\(^{68}\) Scottish Government Social security consultation - winter fuel and cold weather payments 2016