

Fuel Poverty: Energy Action Scotland (EAS) Policy Position

High Price of Domestic Energy

Fuel poverty has three main causes: poor energy efficiency of the dwelling, low disposable household income and high price of domestic energy. Here, EAS outlines its position on key factors influencing the price of domestic energy.

EAS Recommends:

- Energy utilities to refocus from switching to building relations with existing customers and offering an annual account review to check tariff, payment method and take up of services; and to consider a UK Priority Services Register.
- All prepayment meter (PPM) tariffs to be at least as cheap as other payment methods.
- A supply condition that prevents any vulnerable household from self disconnecting during the heating season and within the hours of darkness.
- Fuel Direct to be used to prevent debt accumulation and not just repayment, with greater use of Fuel Direct over PPMs.
- Smart meters to be accompanied by comprehensive information and education.
- Real time display devices to provide an interim solution to smart meters for vulnerable consumers, eg. who are on social tariffs and the Priority Services Register, with advice on how to read and use them.
- Energy advice to be part of any fuel poverty/energy efficiency scheme and to be delivered face to face in the home by qualified, independent advisors.
- Possible regulation of other domestic fuels and their contribution to energy efficiency schemes.

Energy Prices and Fuel Poverty

The Scottish House Condition Survey (SHCS) states that the number of Scottish households living in fuel poverty had dropped from 738,000 in 1996 to 286,000 in 2002 and that 35% of the decrease was due to reduced energy prices. Since then, fuel poverty levels have been rising, due largely to increasing energy prices. The most recent official figures in the Scottish House Condition Survey for 2008 show 618,000 (27%) fuel poor households in Scotland. However, EAS estimates the present day figure to be around 800,000 households.

In 2008, the SHCS team also reported that, all else being equal, for every 1% increase in energy prices a further 8,000 Scottish households are pushed into fuel poverty¹.

Switching

Ofgem has found that vulnerable consumer groups in particular are not benefiting fully from the ability to switch gas or electricity supplier². In addition, a higher proportion of low income groups may also be prevented from switching by their current supplier

¹ 'Estimate of fuel poor households in Scotland', SHCS, <http://www.scotland.gov.uk/Topics/Statistics/SHCS/fuelpoorinscotland/Q/EditMode/on/ForceUpdate/on> .

²'Energy Supply Probe - Initial Findings Report', Ofgem, October 2008.

because they are in debt. Rather than just encouraging the switching of supplier, EAS believes that energy companies now need to refocus their efforts onto building relations with their existing customers. For example, they could proactively offer customers an annual account review to check if they are on the best tariff, payment method etc for their needs including eligibility for the Priority Services Register (PSR), a social tariff or energy efficiency measures. EAS also believes there is potential for a UK PSR, which would enable energy suppliers to share the fact that a customer is on the register at the point of switching.

Energy Bill Payment Methods

Often customers could save money by remaining with the same supplier but change to a different payment method such as direct debit and/or online. However, Ofgem has found that only a third of elderly consumers have access to the internet and so are least able to compare offers or access the cheapest online deals. Low income groups also have lower rates of access to the internet and a significant number do not have personal current bank accounts resulting in lower access to the cheapest online deals and direct debit tariffs. EAS believes that information about these potential savings should be promoted by suppliers rather than solely focusing on switching supplier.

Prepayment Meter Price Differential

Prepayment meters (PPM) remain among the most expensive ways of paying for gas and electricity and Ofgem has found that low income groups are disproportionately high users of PPMs. On average, a Scottish household paying for gas and electricity by PPM is charged almost £85 more than customers on an online tariff with direct debit³.

PPM customers could make an average annual saving of around £40 simply by switching supplier⁴. However, a number of energy suppliers do not allow PPM customers to switch using price comparison websites⁵, which places them at a disadvantage.

Prepayment Meters and Self Disconnection

EAS research on self disconnection⁶ found that around 14% of PPM users regularly self disconnected and that just over 57% regularly used emergency credit. Although some customers do choose to have a PPM, EAS found that often the driving force was fear of debt, with many considering PPMs as the only sure way of controlling energy usage. There is a clear need for education to reduce the high incidence of emergency credit use and to highlight the choices available when people move to a new home which has a PPM or whose supplier insists on installing a PPM due to a debt.

EAS believes no vulnerable household should be left without access to gas and/or electricity through self disconnection during the heating season and within the hours of darkness and that a licence condition should prevent this happening.

³ Consumer Focus Price Comparison Factsheets Sept 2010.

⁴ 'Prepayment Meter Customers Missing Out on Savings Worth £250 Million', Ofgem press release.

⁵ Evidence submitted by energywatch to the Business & Enterprise Committee 'Inquiry into Possible Anti-Competitive Behaviour in the Energy Markets', July 2008

⁶ 'Self Disconnection Survey Report', Energy Action Scotland, October 2004.

Fuel Direct

One of the main benefits of Fuel Direct is that the debt recovery rate is at a set amount per fuel per week. Customers with a substantial debt may be better paying off debt via Fuel Direct than by an often more expensive prepayment meter.

EAS recommends that eligibility for Fuel Direct should be widened to enable customers to prevent the accumulation of debt rather than just to repay it. The administration of the scheme should also be simplified and made consistent across the UK so that energy companies are not deterred from using it by its difficulty, complexity and expense.

Smart Meters

EAS supports the UK Government's commitment to provide all gas and electricity consumers with smart meters by 2020 and recommends that priority should be given to replacing all prepayment meters (PPMs) with smart meters as soon as possible. This would prevent the problem of PPMs that require physical adjustment when tariffs change and where 'debt' can then accumulate during the period between the tariff increase and the meter adjustment, known as 'back charging'.

EAS believes that smart meters will provide useful information to consumers about their energy usage but only if it is accompanied by a comprehensive information and education programme. It is also important to avoid vulnerable customers being frightened into turning heating and appliances off instead of simply using them more energy efficiently.

EAS recommends that current safeguards for customers should remain in place after smart meters are introduced, such as a moratorium on winter disconnections and ensuring that debt recovery levels take account of ability to pay. In addition, suppliers must not be able to disconnect customers or switch them from credit to prepayment without following certain steps, and for these to be set out in licence conditions. It is important that smart meters do not become the PPMs of the future but instead are used to reduce the number of self disconnections.

EAS recommends that real time display devices could provide an important interim solution to smart meters. These should be provided only on request and be promoted to vulnerable consumers such as those on social tariffs and the Priority Services Register.

Energy Advice

Energy advice is a critical element of any scheme aimed at assisting the fuel poor or improving energy efficiency. It is important that appropriate advice is given to householders alongside any insulation or heating installations to ensure that comfort levels and savings on fuel bills are maximised. Ideally this advice should be provided on a face to face basis and by an advisor with appropriate qualifications. Advice should be independent where possible.

Off Gas Grid

Around 33% of rural customers are not on the gas grid and thus can be at a disadvantage, for example by not being eligible for the discounts available to dual fuel customers. This can be compounded by higher heating costs from their use of solid fuel, oil, electricity or liquefied petroleum gas. These are unregulated fuels and suppliers do not contribute to energy efficiency programmes to the same extent as those for gas and electricity. EAS believes it is perhaps time to consider increasing regulation on these other fuels in order to help protect customers and ensure fairness in suppliers' contribution to and participation in the energy market.