

## Energy Review - Submission by the Fuel Poverty Advisory Group

### Key Points

The Government has statutory obligations to eradicate fuel poverty. These were re-iterated as one of the four goals of Energy Policy in the 2003 Energy White Paper, and Defra and DTI both have PSA targets on this.

Against this background it is important that the Review should:

- Re-affirm the Government commitment to its obligations to eradicate fuel poverty on existing time scales.
- Give significant weight and focus to fuel poverty, since affordable warmth is one of the 4 key objectives of energy policy.
- Set out the resources required (for insulation, heating and further measures) and the other actions/policies needed to achieve these targets.
- Consider, in a pragmatic way, the best measures in the short run for securing reductions in energy prices to households and in the medium term for preventing a recurrence of current high prices.

The Government has done a great deal on fuel poverty, but the Fuel Poverty policy now faces the most severe problems. The number of vulnerable households in fuel poverty in England is now expected to rise by as much as 1m, and hence almost to double, between 2003 and 2006, as domestic energy prices are expected to be about 35% higher in real terms than they were in 2003 – largely as a result of rises in wholesale prices. It is recognised that there are difficult issues here and that Government and Ofgem have worked hard on some aspects of the energy and gas price questions, with some very fruitful work on EU matters. However, both Government and Ofgem do seem at times to be unwilling to face up to the issues.

It seems to FPAG from the outside that the Government and Ofgem are not reacting strongly enough to the extraordinary wholesale prices, which have been driven way above cost to the detriment of customers, and that they are not willing enough to examine different solutions in the light of the unexpected and unwelcome developments. We would like to see more urgency on this - as the UK wholesale gas market has the unenviable distinction of having the highest priced hydrocarbons in the western world, with UK wholesale gas prices more than 50% above Continental European, and nearly 25% above US, wholesale prices for the year starting October 2006.

### Proposals

Our specific proposals for this serious situation are:

- FPAG recognises that in recent years the market has provided benefits for low income customers. **Nevertheless the Government and Ofgem need to examine all options carefully in the current critical situation - trying to retain the benefits of an open and competitive UK market whilst dealing with the massive problems that have emerged with the operation of the UK wholesale gas market. A way needs to be found of securing reductions in wholesale prices and of preventing a recurrence in the medium term [relevant for the Review] of the current situation**, with UK wholesale gas prices way above those elsewhere in the world.

While the EU work is extremely important, it needs to be supplemented – as it is not likely to have an impact this winter, it may not on its own prevent a recurrence of the present situation, and a "Plan B" is required, in case it does not prove possible to reform the Continental market on a reasonable timescale or in case such reform does not provide the whole solution. **So we would like a more "can do" approach from Government and Ofgem.** The Government, Ofgem, energywatch, FPAG, industrial customers, and many of the energy companies would like to see a reduction in wholesale prices next winter and want to prevent the current situation from recurring in the medium term. There must be a way of doing this.

- Domestic customers will be paying £3.5 bn more (in real terms) in 2005 and £6.5bn more in 2006 than they were in 2003 for their gas and electricity. **It is a cause of great disappointment and surprise to FPAG that Ofgem was not willing to analyze the margins in the value chain and to assess to whom these extra payments have gone.** However DTI have carried out the work. In gas, the oil and gas producers and the Treasury have secured the bulk of the extra payments of over £2bn. In electricity in 2005, of the extra expenditure of over £1bn, about 40% has gone to those supplying fuel to electricity generators, while generators have gained about 60% (in part but by no means wholly because of the operation of the EU ETS scheme). It is recognised that generation profits were for a number of years exceptionally low and that it is not possible to draw simple conclusions from this data. Nevertheless **it is essential in FPAG's view to understand and track developments here.** There is very little transparency in this area. Some companies have to publish the average cost of the gas they purchase. **We would propose that all the energy supply companies should be obliged to do this, possibly with some further detail.** We are submitting a separate short paper to the review with the results of this work on margins.
- As noted customers are paying considerable higher prices as a result of EU ETS. Although this does raise some issues (especially for the traded sector), **serious consideration should be given to auctioning the EU ETS allowances as soon as possible** –so that revenues would flow to Government rather than to the generators. **Some of the proceeds should then be recycled for the fuel poverty programmes.**
- There has been progress on social tariffs and prices for low income customers thanks to Ofgem and the energy supply companies. **However, it ought to be possible with modern technology to secure low cost payment methods suitable for low income households.** These include cheaper pre-payment meters, (which in 2003 were used by 25% of the fuel poor), more suitable direct debit arrangements, streamlined payments via the Post Office, and expansion of Fuel Direct. Such payment methods could potentially reduce the price of energy by £60 pa for many low income customers. Given current high energy prices it is extremely frustrating that there has been so little progress on this and there should be more drive from Government on the various approaches and from Ofgem on pre-payment meters.
- In spite of the recent very welcome increases in the Warm Front budget, **it will be necessary to increase the resources for the Fuel Poverty Programmes by at least 25%-30% over the 2006-10 period, especially for non-gas areas and some of these extra resources will need to be provided before the next Spending Round.** We appreciate the challenges in this, but we think that extra resources could come from:

- The higher than expected tax revenues currently being received by the Treasury from upstream producers as a result of the exceptionally high gas prices.
- The extra £150/250m VAT being received per annum as a result of the increase in energy prices since 2003.
- A super windfall tax on the extra-exceptional upstream profits resulting from the high gas wholesale prices.

Further expenditure in addition even to these resources is likely to be needed with households where there are particular difficulties in securing their removal from fuel poverty.

- It remains FPAG's view that over time fuel poverty should be eradicated by improving the energy efficiency of homes and equipment. **However in the short run energy price discounts and/or income support for targeted groups will be needed.** This is because of the massive price increases, (which could be greater still as a result of Energy Review measures to increase supply security and reduce carbon emissions); because heavy expenditure is required on some homes; and because some of the newer renewable measures for homes are relatively untested. So it will be important for a period to insulate some vulnerable households, at least in part, from the price increases.
- We would see such energy price discounts as a transitional measure. **In the medium term it will be critical to have expanded programmes to reduce the running costs for energy in the homes of low income households.** Programmes of this kind will also reduce carbon emissions. The programmes would include conventional measures like cavity wall and loft insulation, draught proofing and the installation of very efficient gas central heating, and also double/triple glazing. **In some situations it will also be necessary to install newer measures once they have been more fully tested** – microgeneration including wind, solar, domestic combined heat and power, and heat pumps and biomass heating. In addition insulation of solid walls will also sometimes be needed, and research to improve our methods of insulating solid walls will be important.
- **Such special programmes of price discounts and/or intensive energy efficiency measures will be need to be focussed on specific sub-groups** of those eligible for Warm Front/EEC Priority. Work on this is in hand but such activity might be concentrated on those with energy inefficient homes and appliances (SAP under 30), those aged over 80 and those with prepayment meters – all groups with significant numbers in fuel poverty and a high incidence of fuel poverty.
- **Energy efficiency issues should continue to have a high priority in Energy Policy** - there are synergies and spin-offs for low income groups and for fuel poverty from energy efficiency generally, as discussed below. The recent evaluation of EEC 1 for Defra underlined this, showing for example that 1m low income households purchased energy efficient fridges and washing machines under EEC between 2002 and 2005.
- **50% of the benefits of the Energy Efficiency Commitment should continue to go to vulnerable customers (the Priority Group).But the Priority Group part of EEC needs to be reformed for the next stage of EEC in April 2008, so that it is focussed much more sharply on fuel poverty** (although conventional energy efficiency measures will continue to play an important role given that there will still

be over 2m uninsulated cavities in Priority Group homes in 2008). It is particularly important in current circumstances that the available resources are used as effectively as possible. Discussion on this next phase of EEC should be starting seriously now. Action also needs to be taken on the current cutbacks by some companies in EEC activity –although the announcements in the Budget about additional energy efficiency work by the main energy supply companies, except for Scottish Power, are welcome.

- There is better engagement from other Government Departments on fuel poverty, but there is still much more to do with some Departments, and also at local and regional level, especially in finding and referring vulnerable customers who would benefit from the fuel poverty programmes. We would highlight here 3 specific points (all relating to ODPM):

-It will be necessary to take action in social housing to help those who are in fuel poverty even though their homes meet the Decent Homes Standard.

-It will be extremely helpful if many more Local Authorities are actively engaged on fuel poverty. To this end fuel poverty should be introduced into the Comprehensive Performance Review or some other means needs to be found of engaging very many more Local Authorities in a much more effective way.

-We are extremely disappointed that Local Authorities will not be given access to data from the Home Condition Report. It is essential that the system is set up in such a way that, if over time this decision is changed, then access can be provided without technical obstacles or undue expense.

As the eradication of fuel poverty depends on the actions of a number of Departments and also contributes to their objectives, **the Fuel Poverty PSA target should in our view be shared not only by Defra and DTI but also by ODPM, DWP, DoH and Treasury** (in the same way as the child poverty target is shared with Treasury).

- On a more general issue, it seems, from the NAO Report on the NGT sale of some of its distribution networks, that Ofgem's actions were restricted by the wording of its statutory duty to protect consumers' interests. According to legal advice it was not able to maximize consumer benefits. This might be important for a wide range of issues – not just merger and acquisition situations. **If there is legislation following the Energy Review, Ofgem's duties should be reconsidered to see if there is scope to enable Ofgem to maximize consumer benefits in its activities.**

## Energy Review Questions

Turning to the specific questions in the Review, we provide answers below to those that are relevant and where we have expertise.

**Q1. What more could the Government do on the demand or supply side for energy to ensure that the UK's long term goal of reducing carbon emissions is met?**

- A. The expanded fuel poverty programmes will often have the effect both of reducing carbon emissions and fuel poverty. Expanded demand side energy efficiency programmes will, at the same time, often secure market transformation and will reduce the cost of energy efficiency equipment and measures for low income as well as for other groups. This potentially applies as well to micro-generation.

**Q2. The Energy White Paper left open the option new nuclear new builds.**

- A. FPAG does not have expertise on nuclear or other forms of generation. We would, however, strongly urge the Government to drive towards the lowest cost way of reducing emissions and to make judgements about this on the evidence and on analysis and not on pre-suppositions in favour of a particular technology. We would want to see the Government avoid picking winners that risk imposing high costs on customers if they do not, in the event, turn out to be winners.

**Q3. What further steps should be taken towards meeting the Government's goals for ensuring that every home is adequately and affordably heated?**

- A. The answer is in the proposal section above.

**As background, we attach out information on:**

- Developments in fuel poverty.
- More on prices generally and prices for low income customers.
- Prices and margins
- Fuel poverty and climate change.
- Resources required [with further details in Appendix 1] and sources of extra resources.
- Current programmes especially EEC.
- Role of other Government Departments - in Appendix 2.

## 1 Developments in Fuel Poverty

There were further reductions in fuel poverty between 2002 and 2003, with the key data in Table 1. They are taken from the Government's *UK Fuel Poverty Strategy Third Annual Progress Report*.

Table 1

### Fuel Poverty in England 2002 and 2003

	Number of households (m)		
	2002	2003	2006 (Estimate)
Households in fuel poverty	1.4	1.2	
Vulnerable households in fuel poverty	1.2	1.0	2.0
Households in fuel poverty (broader definition)	2.0	1.5	
Vulnerable households in fuel poverty (broader definition)	1.6	1.2	

It will be seen that 1.0 - 1.2m vulnerable households - the key group for the 2010 target - were in fuel poverty in 2003. (There have been some changes in the methods for calculating the numbers in fuel poverty, but these have probably offset each other and have no material impact on the numbers.)

Since 2003 energy prices have risen sharply. Even if there were no further increases from current retail price levels, the real increase in domestic energy prices between 2003 and 2006 would be over 20%. If there are further increases of 20% in gas prices and 8% in electricity prices, as a result of current wholesale price levels, the 2003-2006 real increase in energy prices is nearly 35%. Details are in Table 2. **Prices are now back to 1997 levels in real terms and will be higher once the winter's prices work through.**

Table 2

### Real increases in gas and electricity prices 2003-6 (DTI estimates)

	%	%
	No account of recent wholesale price increase	Account taken of recent wholesale prices
Gas	26	46
Electricity	17	25

DTI are forecasting a reduction from 2006 levels, but prices in 2010 are now expected to be 10% higher than previous forecasts.

This is clearly critical for progress on fuel poverty. The effects of these increases are set out in table 3.

Table 3  
Effects of price rises in England

	Increase in vulnerable households in fuel poverty in England	
	No account of recent wholesale price increase	Account taken of recent wholesale prices
Effect of: 2003-6 price increases	1,050,000	1,250,000
Offset by: Income increases	250,000	250,000
Net effect	800,000	1,000,000
Effect in 2010 of higher price forecasts	200,000	

**The number of vulnerable households in fuel poverty in England is expected to rise between 2003 and 2006 by 800, 000 and 1 million (depending upon whether account is taken of this winter's price increases).** The prices on their own will raise the numbers by more than this, but this will partly be offset by increases in income. (These estimates take no account of improvements in energy efficiency from fuel poverty programmes, and they are clearly broad brush estimates as the exact price increases for 2006 are not determined and there are also uncertainties about the impact of social tariffs/rebates.)

The higher prices now forecast for 2010 increase the numbers who will be in poverty - unless there are offsetting measures - by 200,000. The task of eradicating fuel poverty, which was already difficult, has thus become more daunting.

For the first time the Government published, in its Fuel Poverty Progress Report, information on the cause of the reductions in fuel poverty between 1996 and 2003. According to these estimates, 61% of the reduction was attributable to rises in income and benefits (including Winter Fuel Payments), 22% to price reductions (up to 2003) and 17% to energy efficiency.

With the price increases since 2003, the beneficial price effect will disappear. The effect of increasing incomes and benefits is striking and the material impact of energy efficiency is also important. Another indicator of the effect of the energy efficiency programmes is the fact that the SAP rating for households with the lowest 30% of incomes is now the same as that for the average of all households - an important improvement.

With the expanded energy efficiency programmes since 2002, and again since 2005, there will clearly continue to be improvements, although this will not be enough to counteract the price increases.

## 2 Energy Prices

The energy prices increases are, in part, a result of worldwide forces. However, there have been huge increases in wholesale prices in Britain beyond world levels, especially for gas. These price levels are, in our view, raise extremely serious concerns, if they are anything other than a short run blip. There is a need to identify and consider all the options for tackling this problem. This will include possible ways of preventing a recurrence, as well as for securing a reduction in the present high prices. These options should include interventions of different kinds in the market. We are not necessarily advocating such intervention, but we do think the pros and cons should be considered along with those of other measures.

FPAG takes a pragmatic view of these matters. The market has provided benefits for low income customers in the past, and UK gas prices to households are still a little below average EU levels. We accept that there is no evidence of market abuse, **but FPAG members are of the view that the UK market is not functioning well at present in that it is producing wholesale prices way above costs, to the detriment of customers, including the fuel poor.**

We hope that the Government and Ofgem will take a similarly pragmatic approach - not just reaffirming that the market will provide solutions, not just seeking to improve the working of the market and its transparency [although these could be important], **but also considering whether the market on its own is capable, for example, of providing for rare cold weather situations or whether supplementary measures are needed.** Similarly it will be necessary to consider what should be done if it does not prove possible to reform the Continental market or if such reform does not provide the whole solution.

**Ofgem in particular needs to be more proactive on behalf of customers.** Its recent report on Domestic Market Retail Competition was breathtaking in its complacency, showing no trace of concern about the rise in prices and implying that the market is working well. Again a much more critical approach, driving for the interests of customers, including low income customers, would be welcome.

We recognise that - whatever is done on the general rise in prices - prices are likely to be higher than they have been in the past. It will therefore be very important in other respects as well for Government and Ofgem to strain every nerve to ensure that prices are as low as possible for low income customers in a high price environment. There has been progress on this. Ofgem provided some most useful guidance on the Competition Act and the energy supply companies have responded well by introducing social tariffs, usually for fairly small groups of low income customers.

However, further progress is needed. **The key here is to secure a low cost payment method for low income households, so that large numbers of low income customers can benefit.** Currently those on prepayment and standard credit tariffs pay a little under 10% more than those on direct debit. If this gap could be removed, energy bills for many low income customers would be cut by £60 a year - a worthwhile reduction.

There are a number of possibilities:

#### Prepayment Meters

**There should be a drive to make the necessary changes to metering arrangements in order to secure low cost prepayment meters.** We look forward to seeing the outcome of Ofgem's review of metering. In Northern Ireland, a modern electricity payment meter (the Keypad meter) has been introduced and Keypad customers pay only 1½ % more than those on direct debit. This is cost reflective and not a social tariff. If this is possible in Northern Ireland, it must be feasible here and we very much hope that Ofgem will facilitate similar (not necessarily identical) developments in England. We are pleased that Ofgem will be allowing gas debts and charges to be recovered through electricity prepayment meters – thus avoiding the need in some case for customers to have 2 prepayment meters, and hence potentially reducing costs for some customers.

## Direct Debit and Financial Inclusion

**Current direct debit arrangements are not generally suitable for low income customers** because of the high charges for failed direct debits, the obstacles to weekly direct debits and other difficulties. FPAG members, in liaison with the Financial Inclusion Task Force, are in discussions with the banks to try to overcome these obstacles. If some resources are needed to kick start this then one source might be the unclaimed financial assets held by the banks - currently being reviewed by an independent Commission. As the Government is withdrawing support for the Post Office Card Account it is particularly important that improvements are made to the direct debit facilities for low income customers with basic bank accounts.

In addition, there are major shortcomings with the banks' practices on basic bank accounts, which make it difficult for some low income customers to open and/or operate them. These were highlighted in a recent report from Citizens' Advice and it is important that action is taken to rectify this.

**FPAG members are also in discussion with the Post Office about a scheme to deduct - with the customer's consent - payments to energy and other companies before benefit money is withdrawn** from the customer's bank or PO account and paid over to the customer. There is a similar scheme in the Republic of Ireland and we are hopeful that progress will be made here, too. Given that customers withdraw money from other banks via the Post Office; this will remain relevant even if the Post Office Card Account is discontinued. DTI is the sole shareholder of the Post Office and is also, with Defra, the holder of the fuel poverty PSA target, and so we will look to the DTI for help if commercial discussions do not produce a satisfactory outcome.

## Fuel Direct

Fuel Direct (deductions by DWP from benefit to make direct payments to energy companies and others) is another potential low cost payment method. However, the Government has been unwilling so far to extend the scheme.

**It is extremely frustrating that more progress in low cost payment methods has not been possible. Given the will, it ought with modern technology to be feasible one way or another to secure a low cost payment method for low income customers. We will continue to drive forward on this, in view of its importance especially in a high price environment.**

## 3 Fuel Poverty and Climate Change

A Treasury led review [Stern Review] is considering the economics of climate change. FPAG has submitted comments on the relationship between the objectives of combating climate change and fuel poverty - clearly relevant also to the Energy Policy Review.

- There are strong synergies between the objectives - energy efficiency is good for combating both climate change and fuel poverty. The recent evaluation of EEC 1 for Defra again underlines the value of energy efficiency for all objectives of energy policy. Similarly microgeneration and household scale renewables are good for combating climate change and good for fuel poverty, because of their lower running costs. Microgeneration, potentially, can play a particularly important role both in climate change and fuel poverty.
- There is a strong case for learning from the recent German approach of bringing all households up to a very high standard of energy efficiency over a 20 year period. This would provide a lasting solution to fuel poverty as well as reducing carbon emissions.
- There are also tensions as the price of energy may increase as a result of measures to reduce emissions. This underlines the importance of using the most cost effective ways of reducing emissions and the desirability of using taxation rather than energy prices to cover the costs where possible. In the end, the tensions can be managed in wealthy economies if the Government has a firm commitment to eradicating fuel poverty. Where as a result of an environmental policy, energy prices rise and Government revenues increase, then part of the Government proceeds should be recycled into fuel poverty programmes. Energy prices can rise to high levels for reasons unconnected with climate change - as we are currently seeing only too clearly, so the programmes needed to eradicate fuel poverty in a situation of high energy prices will in any case have to be put in place.

Thus programmes for the 2 objectives are complementary and the conflicts that do exist between the objectives can be managed in advanced economies.

## 4 Resources for fuel poverty

### Current programmes

There are now very substantial programmes for Fuel Poverty. **FPAG was very pleased about the further increases announced in the pre-Budget Report - an extra £250m for Warm Front over 3 years** for pensioner households. This represents an increase of a little under 10% in the expected size of the Fuel Poverty programmes over the period to 2010.

The current size of the programmes is broadly as follows (further details on the size of current programmes and resources required are in Appendix 2):

Warm Front	c £190m in 2005/6 rising to £350m in 2007/8
EEC Priority Group	c £200m p.a. in 2005/6 to 2007/8
LA Decent Homes - energy efficiency	c £100m p.a. (very approximate estimate)

Thus about £500m p.a. is currently being spent on fuel poverty and energy efficiency programmes for vulnerable households and this will rise to over £600m by 2007/8. **These are very sizeable programmes which have been significantly increased in recent years. They will undoubtedly make major contributions to reducing fuel poverty. However, it is necessary - because of the price rises - to run fast to stand still and these resources will still not be adequate to meet the targets.** The price increases have underlined the importance of energy efficient housing and appliances and the right heating equipment in securing sustainable solutions to fuel poverty.

As noted UK energy prices may still be close to European averages but it will also be worth the Government's assessing whether energy bills in England and the UK are nevertheless above European levels because – in spite of recent improvements – the energy efficiency of homes and appliances may be lower here.

### Resources required

DTI and Defra officials have on behalf of FPAG updated the earlier work on resources required (and we refer to this work in this Report as the "Resources Work"). The following estimates are, however, FPAG's and not DTI/Defra's views on the resources required, based on this work.

It has been assumed in this work that prices are very slightly lower than current levels and about 10% lower than prices expected in 2006 on the basis of current high wholesale prices.

**On this basis an increase of 25%-30% in resources compared with current programmes is required.**

Table 4

### Resources Required for Fuel Poverty

Current programmes 2005-2010	-	£3.05 bn
Resources required	-	£3.9 bn
In current programmes it is assumed that 2007/8 levels continue until 2010 (apart from the pre-Budget extra resources) - this is an important assumption.		

This is a sizeable increase of nearly £1bn to 2010 and action will be needed before the next Spending Round if the 2010 target is to be met especially as the current Spending Round now runs to 2008/9. The Resources Work also showed that even this expenditure would leave some households in fuel poverty. In the short run this is likely to have to be supplemented by income and/or price measures and FPAG is working on proposals. Over time further relatively high cost work on the house or on heating equipment will in some cases be needed.

Resources are primarily, although not wholly, needed for non-gas areas (as shown in Appendix 2). The programmes for non-gas areas consist of a variety of measures. It will be worth connecting perhaps 15% of low income families to gas - primarily those in communities of over 50 homes within a short distance of a gas main. Heating measures in these cases would include condensing boilers, domestic combined heat and power and chp/power fired district heating.

For communities outside the economic reach of the gas network, there would be a flexible package of insulation, improvement of the fabric and glazing of homes, and low carbon fuels/technologies, including community wind, bio-fuels and heat pumps. Here again it is worth underlining the close links with the Government's micro-generation strategy, and the need to kick start the programmes in order to secure economies of scale over time. It is disappointing that there has been so little pilot work on low carbon measures. In the context of fuel poverty.

These non-gas area programmes are really important. The Resources Work shows that if heating costs can be reduced to the levels of gas heating costs (by the provision of gas or other means) then fuel poverty in non-gas areas will be reduced by as much as 75%.

### Sources of extra resources

#### **Resources are scarce, but more are needed to meet the targets!**

FPAG is very pleased that its proposals were accepted - for an expansion of the fuel poverty programmes, financed by taxation of the windfall profits of upstream producers. If the statutory targets are to be met, the following sources of additional resources will need to be considered:

- Use of the additional VAT received by the Government as a direct result of the rise in retail energy prices. This extra VAT amounts to as much as £150-£250m in 2006.
- Further use of the revenues from the additional oil taxation. The additional taxation will yield over £2bn p.a. The fuel poverty programme expansion - welcome though it is - will cost about £100m, i.e. 5% of the additional revenue, and the extension of winter fuel payments costs just under £700m pa.
- Recycling of the super-windfall profits arising from the exceptionally high wholesale prices if they persist.
- Recycling of some of the high profits currently being made by electricity generators - although we would much rather see the prices (and hence the profits) reduced.
- If there are takeovers and merges and especially if these have some disadvantages for customers e.g. through reduced competition, some of the benefits of such mergers should flow through to customers, including low income customers.
- The DTI's Design and Development Unit draws on funds, for projects in non-gas areas, from Regional Development Agencies and the EU. However, further DTI/Defra money is needed as a catalyst.

Our approach in seeking these extra resources is that customers and the fuel poor are "losers" from the high prices, but there are also winners and some recycling from winners to losers will mitigate the impact of high prices on fuel poverty.

#### Medium term

In the medium term as noted new technologies will be needed to provide sustainable solutions to fuel poverty.

Table 5 below sets out estimates of the indicative costs and impact on energy bills of some of the possible measures. Current costs and estimates of the costs in the event of larger scale production are given where available.

Table 5  
Newer Technologies

Technology	Current cost (£)	Larger scale cost (£)	Reduction in energy bills (£pa)
Ground source heat pumps	6000		470-745
Air source heat pumps	5000		575-990
Gas chp	3000-7000		500-1000
Wood pellets	4500		495-850
Solar	2500-4000	1400	25-110
Ext. solid wall insulation	6000		115-490
Int. solid wall ins.	2125		115-490

As can be seen there are very significant potential savings in energy bills but some of the costs are high and it will be important over time to drive the costs down and to carry our steady long term programmes of improvement as envisaged in Germany.

## 5 Current Programmes

As noted last year, the changes made to Warm Front are very welcome. There are some issues relating for example to grant maxima, and waiting times and it remains to be seen whether these are teething problems or more fundamental. It is not clear that a whole house approach is being implemented in practice. Integration between Warm Front and EEC does appear to be improving, although there is still scope for further progress.

EEC has until now also been working well, given its current objectives. However EEC activity has now slowed down because of the carryover from EEC 1 and the good progress of EEC 2 to date. While it is recognised that this is a result of previous success in driving up EEC activity and cavity wall insulation in particular, it is nevertheless having serious consequences. EEC is slowing down when fuel poverty is increasing. And the installers are victims again of stop-go cycles which have an adverse effect over time on costs. **There is a pressing need for action on this – a statement from Government soon that there will be challenging targets for the next EEC and that some carryover from current schemes will be permitted.** Otherwise the industry's capacity will be reduced and the cost of delivering will be higher when the programmes are geared up again. (As noted the voluntary additional activity by suppliers apart from Scottish Power will be of help).

In addition to EEC, some of the supply companies have developed on a voluntary basis, a range of programmes to help low income and vulnerable customers. These include benefit health checks to assess whether customers are entitled to benefits such as Pension Credit, social tariffs of different kinds, Trust Funds to help some of the customers most in need and the Home Heat Helpline (which the energy suppliers established in response to views expressed by local and other organisations). Some (by no means all) of the schemes announced by suppliers are extremely small and seem to verge on tokenism but a number are significant and Ofgem in June 2005 estimated that suppliers were spending substantial sums – just over £100m – on these activities, and

this will have increased since then. Most of the expenditure will be in revenue foregone or in kind. This constitutes a significant and welcome addition to fuel poverty activities.

However, we do believe that a more radical rethink is needed on EEC and suppliers' activities, as foreshadowed last year. There are a number of drivers:

- The Resources Work has again highlighted the importance of central heating for combating fuel poverty - the installation of gas central heating for those in gas areas would remove 80%, of those currently without central heating, from fuel poverty.
- As discussed above, more focus is also needed on non-gas areas.
- Improved energy efficiency and heating need to be supplemented by energy price reductions or income increases for groups of customers.
- It will be more important still to use resources as cost effectively as possible and so integration with Warm Front should be improved still further.
- A whole house approach is critical if resources are to be used effectively.

**As a result there should, in our view, be some room in Priority Group EEC for measures to supplement incomes (e.g. benefit health checks) and/or to reduce prices (social tariffs) for vulnerable households, and there should be scope for the installation of a wider range of measures which are cost effective in combating fuel poverty.**

We are currently submitting our more detailed proposals. If any changes need primary legislation and if this is not feasible **then the possibility of a voluntary agreement - pending legislation - should be explored.**

In some cases, as noted in Section 5, extensions to the gas network will be needed. It is possible that this could be facilitated through regulatory changes and we are pleased that this is being considered by Ofgem in its Gas Distribution Price Control review.

One more immediate change to EEC is needed. EEC support is given to a switch from coal or oil to gas heating. **There is no support for a switch to renewables like wood pellets. This makes no sense at all and Defra should take steps to change it immediately. Some progress is being made on this.**

## Appendix 1:

### Resources Required for Fuel Poverty.

#### Current programmes – largely assumes 2007-8 levels continue until 2010

Warm Front	£1.55bn
EEC Priority	£0.9bn
Decent Homes	£0.6bn
<b>Total</b>	<b>£3.05bn</b>

[Decent homes expenditure is £50m pa on insulation and £250m pa on central heating but there is double counting of insulation with EEC and much of the central heating is replacement of older systems.]

**It is worth underlining the assumption about SR 2004 levels continuing until 2010 – thus it is assumed that existing resources include a continuation until 2010 of the £250m budget for Warm Front for 2007-8. But it is not assumed that the extra resources in the Pre-Budget Report continue as these were specifically allocated for 3 years.**

#### Resources Required

##### Gas areas plus insulation in non-gas areas

£750M - estimate from Resources Work for 2003-10

55% of measures go to the fuel poor (assumptions used in previous work) = £1.4bn

20% uplift for marketing, locating customers, administration = £1.7bn

WF and EEC work in 2004 - £0.2Bn, so required from 2005 £1.5bn

##### Non Gas Areas

40% of fuel poor are in non-gas areas (after measures in gas areas)

700,000 vulnerable fuel poor after conventional measures in 2010 (Resources Work) so 40% is 280,000.

With costs of £4,000 per household (Resources Work) this gives £1.1bn and with 55% targeting and 20% uplift £2.4bn.

The costs here are the total costs and include EEC/WF contributions to work outside gas areas.

##### Total

**Resources required: £1.5bn + £2.4bn = £3.9bn**

As discussed in the text this excludes some of the most difficult dwellings and further expenditure will be needed over time

### **Uncertainties about the estimates.**

There is a series of uncertainties about the estimates of additional resources required.

Resources required may be higher than estimated because:

Fuel prices are assumed to be considerably higher than in the previous work. But they could turn out to be higher than forecast and there are no contingency allowances e.g. to cover the risk of a higher case scenario materialising.

The costs of low carbon measures might be significantly underestimated

- Overhead and related costs are likely to increase especially because of the need for more outreach, - to find the vulnerable households – and of the inclusion of benefits health checks, important for the eradication of fuel poverty.
- No allowance has been made for ‘churn’ – the changes over time in the specific households which are in fuel poverty – as a result of changes in family or economic circumstances, or of house moving. This is very important.
- The increase in the number of pensioner households would increase the number in fuel poverty.
- The costs of work required could also rise – e.g. because of skills shortage and ventilation requirements.
- No allowance has been made for the costs of replacing existing boilers as they age and break down.
- As noted resources have been calculated on the narrower definition of Fuel Poverty, including housing income. If the broader definition is used, the resources required increase significantly.
- There is no allowance in the fuel poverty data for the significant costs of servicing central heating systems.

Against this, the estimates of resources needed may be too high because:

- No account is taken of LA private sector housing renewals programmes
- Some funds may be available from other sources [EU, Regions] and , while this does not affect the overall resources required, it may have an impact on the increase needed for the main fuel poverty programmes.
- It is very difficult to do but if ways could be found of pinpointing the fuel poor more precisely then this would reduce costs – as long as this did not result in missing those who subsequently come into fuel poverty (the churn point again).
- Some households will refuse to accept measures under the fuel poverty programmes.

## Appendix 2 Other Government Departments and Fuel Poverty

### Department of Work and Pensions

**DWP and the energy/energy efficiency companies have recognised the huge potential synergies between themselves and they are now providing an admirable model of joint working.** DWP signpost their customers to the fuel poverty programmes and the energy companies' help to increase benefit take up. So there is mutual help in achieving objectives. Specifically:

- Eaga, the Warm Front scheme manager, and most of the energy supply companies carry out benefit health checks to assess whether customers are eligible for benefits or more benefits (although some of the companies' checks are much more comprehensive than others). On the basis of partial data it seems that the cost of each check – on the phone – is about £20- £30, 40% of those receiving a check appear to be eligible, over half and possibly three quarters of these are awarded benefits, and the average increase in household income is over £1000 pa. This is a very substantial increase and **it would be useful if Ofgem with the suppliers could produce further data especially on the number of customers benefiting.** We understand that this is in hand.
- A seamless service is now provided by Eaga and DWP when a customer seems likely to be eligible for benefits - with DWP and Eaga deciding on eligibility for benefits and Warm Front measures. In the past the customer had to go back and forth between the 2 organisations. This is a fairly new scheme but it appears that about 90%, of those found to be eligible in the benefits health check, go on to receive benefits. This approach is also being extended to the energy companies.
- The DWP/Local Authority joint visiting teams, which go to some pensioners' homes to assess needs, are alert to the fuel poverty programmes and refer customers, where appropriate.
- DWP and the energy/energy efficiency companies are in discussions about joint targeting of areas/kinds of households for take-up campaigns.
- DWP have indicated a willingness in principle to contact customers on behalf of the energy supply companies about entitlement to support from the energy companies.
- DWP have recently introduced guidance into the Social Fund to encourage customers to purchase energy efficient fridges. We will be interested in due course in the effect of this in practice.

Outstanding issues are:

- **The seamless service described above works with the Pension Service. It would be good to extend this to customers of working age via JobCentreplus.**
- Benefits health checks are sometimes (not invariably) carried out by the companies only if customers are currently not in receipt of any of the Warm Front/EEC passport benefits - so in these cases they will miss customers who receive some benefits, but not all their entitlement.

## Department of Health

Again there are significant synergies. The energy/energy efficiency companies are able to give the unusual and welcome message that there are resources available for energy efficiency for vulnerable households and that they are seeking customers. If health and social service practitioners can point customers in the direction of the energy/energy efficiency companies, this will contribute to the achievement of Department of Health PSA targets as well as helping with fuel poverty.

**We are pleased that in the last year there has been more engagement from the Department of Health, although there is still a lot to do!** In South East England there has been evidence of co-operation between Eaga, the Primary Care Trusts and the Government Office, and as a result there has been a high level of referrals to the fuel poverty schemes. There is also good practice in some other localities. **The key challenge is to transfer knowledge from the South East and the other localities and to make good practice much more widespread.** A Home, Health and Fuel Poverty Forum has been established, under the auspices of the Public Health Association, to encourage this - which is welcome.

Specifically we would like the Department of Health to take steps and/or give encouragement and guidance on the following:

- **Fuel poverty issues should be highlighted in Local Area Agreements** between LAs and Government Offices, including the health sector. FPAG has written to the relevant LAs about this and we understand that a similar message has been provided from DoH.
- Implementation of the White Paper “Your Health - Your Care - Your Say” must underline the value of measures to provide affordable warmth, especially in the context of the management of long term conditions.
- The National Director for Older People’s Services should focus on these issues, especially as he develops the “Next Steps” proposals to follow the work of the National Service Framework for Older People. Similarly the Single Assessment Process for considering older people’s needs should pick up these issues - which it does not do in all areas of the country.
- An understanding of the issues should be included in the competencies for appropriate health service practitioners.
- It would be helpful if Citizens Advice work in “prescribing advice”, including benefits advice, in GP surgeries and health centres were extended to more practices.

So a start has been made by the Department of Health, which is good, but a great deal now needs to be put into practice.

## Office of Deputy Prime Minister - ODPM

There has been some important progress with ODPM, but difficult issues remain:

- ODPM recognise that some households will remain in fuel poverty even if their dwelling meets the Decent Homes Standard. Further research into this is being carried out, **but the problem is not resolved and decisions will be needed soon if vulnerable tenants in social housing are to be removed from fuel poverty by 2010.** It is also very troublesome that at least 10% of homes are not now expected to meet the Decent Homes Standard by 2010.

- We remain most concerned about high rise flats and, with ODPM, we will shortly be meeting with some of the relevant LAs.
- The Home Condition Report, which sellers of homes will - under the EU Energy Performance of Buildings Directive - have to provide, will potentially supply extremely useful information for fuel poverty (and energy efficiency) objectives and will enable LAs to target houses more effectively. **There is, however, a real possibility that even LAs will be denied access to the data on individual dwellings. If this is the case, it is impossible to understand how LAs can be expected to meet their obligations, e.g. under the Home Energy Conservation Act and to contribute on fuel poverty, if they are denied the available tools to do this.**
- The new legislation on the Home Health and Safety Rating System (HHSRS) and on Houses in Multiple Occupation should be useful on fuel poverty, especially in the private rented sector. It has been helpful to be able, with ODPM and their partners, to input into the training and guidance material. Resources for LAs for implementing the legislation will be important for its effectiveness. We look forward to the results from monitoring the first 6 months of the new scheme around next October. The provisions relating to the refusal of Warm Front/EEC and HHSRS will be monitored by the energy/energy efficiency companies as well as by the ODPM.
- ODPM are leading a review of energy efficiency in existing buildings and we have highlighted the importance of the review taking account of fuel poverty considerations.
- The cross –government action to link services for older people is welcome and it is helpful that the plans being developed include the fuel poverty programmes.

## Local Authorities

Defra, at FPAG's request, asked the Centre for Sustainable Energy to set out how Local and Regional Public Bodies can contribute most effectively to the eradication of fuel poverty. The key conclusions are set out below. There are 4 key areas where Local and Regional contributions can be significant:

- Housing via the Decent Homes Standard and the Home Health and Safety Rating System Grants, especially the integration of Local Grants with the Industry Schemes such as EEC and Warm Front.
- Co-ordination - partnerships to secure referrals to the fuel poverty programmes and local funding.
- Benefits advice and take up.
- Regional Health and Housing - to reflect high standards of affordable warmth.

As noted, Local Area Agreements are likely to be important mechanisms for driving fuel poverty issues forward at local level, and FPAG – at Department of Health suggestion - is working with the relevant people on these.