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Summary and Key Recommendations

It has been a bad period for fuel poverty and it seems that this has now started to be recognised by the Government in its 2008 Budget announcements:

- Energy prices, after some reductions, are increasing again and they are now (March 2008) about 50% above their 2003 levels in real terms. It is likely that in 2007 there were about 2.9m households and 2.3m vulnerable households in fuel poverty in England – the highest levels for nearly a decade.

- In the Comprehensive Spending Review it was decided that annual Warm Front expenditure will be nearly 25% lower in 2008-2011 than it was in 2007-2008 – even though FPAG had expressed concern in its Annual Reports over a number of years about the potential shortfall in resources, and had advised that the 2007-2008 level had at least to be maintained for the next 10 years to meet the targets.

- The price differentials between customers using different payment methods remain extremely large. Customers – generally with lower incomes – using prepayment meters for gas and electricity pay as much as £145 pa more than those paying by direct debit or online and those paying by cash/cheque pay about £85 more than those on direct debit. These are huge differentials, much higher than those of three years ago. This issue of differentials and of the prices paid by low income customers is now acknowledged by the Government and Ofgem and there is hope of some improvement.

- The energy suppliers’ Carbon Emissions Reduction Target (CERT) has been rebalanced significantly to the detriment of low income groups, compared to its predecessor, EEC.

- The Government appears to have given up on the legally binding 2010 Fuel Poverty Target. In its 5th Annual Fuel Poverty Progress Report, Ministers said that there might still be 1.2m vulnerable households in fuel poverty in England by 2010. Fuel poverty is relegated to a minor status in the Government’s Public Service Agreement and Target Framework.

The increase in energy prices has made the fuel poverty targets much more challenging. However, the Government’s policies over a period have now made it impossible to meet the 2010 target and this will result in a shortfall, greater than necessary. The Government has recently taken some important steps, but has not yet in our judgement, done everything which is reasonably practicable to meet the targets.

The 2016 target can still be met. The Government has begun to face up to some of the issues. It still needs to make some difficult decisions and a Strategy And Business Plan to meet the 2016 target is now needed.
In the Budget the Government announced plans for a significant increase in the companies' social programmes and a determination to secure a narrowing of the differential between prepayment and other prices. If this is implemented fully and in a sensible way this is likely to be very helpful. The increase in Winter Fuel Allowances will also clearly be welcomed by pensioners, although there would be better ways of spending the money in order to make progress towards the fuel poverty targets.

Our key recommendations for making progress in the short run are set out below and Section 13 describes the range of actions needed for a number of Government Departments, if the 2016 target is to be achieved:

- Warm Front annual expenditure should, in the 2008-11 period, be restored at least to its 2007-2008 level of £350m. This could easily be done if Government expenditure were better targeted, e.g. by discontinuing Winter Fuel Payments for higher rate tax payers, which would free up over £200m pa for Warm Front, and which would in fact make possible increases in Warm Front over the 3 year period. Alternatively, the programme could easily be funded if, as Ofgem has proposed, the windfall gains being made by some electricity generators as a result of the EU Emissions Trading Scheme were recovered. Finally, the Treasury receives an additional £400m pa in VAT receipts from domestic energy consumers as a result of the price increases, and this is another source of funding.

- On the differentials between payment methods, it seems probable that there will be progress on prepayment prices and on social tariffs and programmes. It is important that some attention should also be paid to customers paying by cash/cheque. In addition there should be a real drive to secure the installation of low cost, pay-as-you-go smart meters, which are available and which could provide a sustainable lower cost solution for many low income customers.

- The energy companies appear to have increased their prices by considerably more than their costs. Gas and electricity customers in 2006 spent as much as £8bn (60%) more for their energy than in 2003 and nearly one third of this increase appears to be attributable to improved margins, especially in electricity. Ofgem should protect the interests of customers much more tenaciously and should give more priority to the interests of low income customers, which have been particularly neglected, especially with the extremely troublesome development of the much higher prices for prepayment and cash/cheque customers. It is hoped that Ofgem’s recently announced probe into energy markets will fully assess where the extra expenditure by electricity and gas customers has gone. In this context the increase in social tariffs fore-shadowed in the budget will be helpful.
There should be more drive by Government to ensure that benefit take-up is increased. In particular there are opportunities for automating the take-up of Council Tax Benefits for those in receipt of other benefits or tax credits.

The PSA and Government target framework and that for Local Government must give adequate priority to fuel poverty, given that the eradication of fuel poverty is a statutory requirement. A concerted effort across Government is needed to meet the 2016 target, and this requires a proper framework and also a cross-Government strategy and Business Plan.

Information on households should, with appropriate safeguards, be shared – especially by the Department of Work and Pensions – with Local Authorities and energy companies, to help to reach those in need.

The Government has now given more recognition to the severity of the fuel poverty situation. If the Budget objectives are fulfilled this will represent progress, but uncertainty clearly remains about this at the present time. In addition the important shortfall in Government resources for the fuel poverty programmes, especially Warm Front, remains a major concern.
1 Developments in Fuel Poverty

Table 1 sets out the movement in prices over the last few years.

**TABLE 1**
**INCREASES IN GAS AND ELECTRICITY PRICES 2003 TO 2007**

<table>
<thead>
<tr>
<th></th>
<th>% Increase over 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Nominal</td>
<td></td>
</tr>
<tr>
<td>Gas</td>
<td>23</td>
</tr>
<tr>
<td>Electricity</td>
<td>17</td>
</tr>
<tr>
<td>Real</td>
<td></td>
</tr>
<tr>
<td>Gas</td>
<td>16</td>
</tr>
<tr>
<td>Electricity</td>
<td>11</td>
</tr>
</tbody>
</table>

It will be seen that gas prices were more than 50% higher in real terms in 2007 than in 2003 and electricity prices were 35% higher. Due to the price reductions in 2007, prices were lower at the end of 2007 than the 2007 average, but the price increases in early 2008 will again take prices above 2007 levels, perhaps by 5% in real terms, if there is not another round of price increases.

Table 2 sets out the numbers in fuel poverty.

**TABLE 2**
**FUEL POVERTY IN ENGLAND**

<table>
<thead>
<tr>
<th></th>
<th>Number of households (m)</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2004</td>
</tr>
<tr>
<td>Households in fuel poverty</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Vulnerable households in fuel</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>poverty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households in fuel poverty</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>(broader definition)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vulnerable households in fuel</td>
<td>1.2</td>
<td>1.1</td>
</tr>
<tr>
<td>poverty (broader definition)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
It will be seen that 1.2m people were in fuel poverty in England in 2003, the lowest number reached. In 2006 this had doubled to 2.4m households (according to the Government’s Annual Fuel Poverty Progress Report) and it is estimated that in 2007 this will rise to about 2.9m. The 2008 price increases are expected to take the total to over 3m. This is close to the 1998 position when 3.4m households were in fuel poverty, although still well below the 1996 level of 5.1m. Of the 2.9m in fuel poverty in 2007, the vast majority 2.3m were vulnerable. (These estimates take no account of improvements in energy efficiency since 2005 from the fuel poverty programmes and are in general broad brush, but they are likely to be of the right order of magnitude.)

In the Government’s Annual Fuel Poverty Progress Report they estimated that, on central energy price and income scenarios, 1.3m vulnerable households will remain in fuel poverty in 2010.

2 Targets

There are, as is well known, statutory targets to eradicate fuel poverty as far as is reasonably practicable amongst vulnerable households by 2010 and all households by 2016 in England. The impossibility of meeting the 2010 target is discussed on Page 2 and Section 11, page 26, considers the impact of the statutory targets over the years and the wider implications of their not being met.

Last year we expressed a concern that ‘fuel poverty will be omitted or downplayed’ in the new Public Service Agreement and Comprehensive Spending Review target framework. Sadly this concern has been amply realised. The reduction in fuel poverty will be neither a PSA target nor a Departmental Strategic Objective for Defra or BERR, but will be one of a very large number – perhaps 30 – of performance indicators in Defra and BERR. So fuel poverty seems to have been relegated from the first to a large third division. This is very troublesome, especially in view of the statutory character of the fuel poverty targets.

It is probably too late now to change the detailed target arrangements. However, the statutory targets should be formally recognised as a key Departmental Strategic Objective for Defra and for BERR, alongside their other objectives.

There is now a fuel poverty indicator amongst the 198 Local Government Performance Indicators. This is helpful, but this will only have a significant impact if fuel poverty is included as one of the priority indicators in Local Area Agreements. It is not known at present in how many areas this might happen. There are some important concerns about the specific indicator, which it is proposed to use.
3 Energy Prices

The first parts of this section broadly describe the present position and take no account of the possible impact of the objectives and intentions set out in the Budget (although the Budget is discussed later in this Section).

Overall Level of Prices

- World forces have increased energy costs, but the cost increases do not explain all of the price increases in the UK.

- Specifically, between 2003 and 2006 expenditure by gas and electricity customers increased by £8.2bn (or 60%). Higher fuel costs only accounted for a little over half of this – £4.5bn – in spite of claims that the price increases are attributable to rising world energy prices. Other cost increases explain £1/1.5bn of the increase. It seems that there has been a significant increase in margins along the supply chain, especially in electricity, of over £2.5bn, accounting for as much as 30% of the price increases.

- Some increase in margins, especially in power generation, is reasonable given the low prices in 2003, but it seems most unlikely that this could explain and justify such a big increase in margins.

- We do not know exactly where the extra customer payments have gone and where the extra margins have been taken. The bulk of the extra payments have probably gone to generators – both independent generators and to some (although not necessarily all) of the big 6 integrated suppliers. Traders and also owners of storage and distribution networks will also have gained.

- There will be significant differences between companies in the extra margins made.

- These data on prices, costs and margins come essentially from a detailed report on this by Cornwall Energy, commissioned by the National Right to Fuel Campaign and UNISON. Further data based on this report are in Appendix 2.

- Ofgem also believe that electricity generators are making some windfall profits – as a result of the free allocation of permits under the EU Emissions Trading Scheme. They and FPAG share the view that current and future profits from this source should be removed over time by the auctioning of the EU ETS permits, and in the interim by other means, and the proceeds should be recycled into fuel poverty programmes.

- However, FPAG’s view based in part on the Cornwall analysis is that the issue is wider than just that of the EU ETS. In 2006 the EU ETS accounted for £0.4bn extra margins out of a total of £2.5 bn, i.e. 15%.
FPAG has, over a number of years, asked Ofgem to carry out a proper analysis of prices, costs and margins along the whole energy supply chain. They have not been willing to do this. They should now carry out a full enquiry into where the extra expenditure by consumers has gone. It is hoped that this will now be done in the context of Ofgem’s recently announced probe into the energy market. In doing this they should give their views in detail on the National Right to Fuel Campaign/Unison analysis – do they agree with the basic quantitative conclusions and if so what in their view are the implications?

We also welcome the BERR Select Committee's enquiry onto the operation of the energy market and we hope that this will provide useful further analysis.

Now it has been demonstrated that this work can readily be done, Ofgem should carry out such analyses at regular intervals in an objective way when they review the operation of the market.

The Government has also been surprisingly passive on the price increases, given that there are macroeconomic as well as fuel poverty implications.

The companies should exercise restraint and, at a time of extreme difficulty for many customers, companies along the chain should keep prices as low as possible. Again it is understood that there are significant variations between companies.

Those low income customers using oil for heating – relatively small in number – will be paying very high prices and some work on this will be worthwhile.

Opportunities for securing somewhat lower prices for customers are also being missed when gas and electricity companies/assets are being sold at inflated prices. This is discussed further in Section 4, page 14.

It is acknowledged that there are difficult issues here – the volatility of profitability, the low prices and low profitability in the early 2000s and the need for incentives for new investment.

However, at a time when many customers are suffering real hardship as a result of the higher prices, it does not seem reasonable that one third of the price increases should be taken in increased margins, with further leakage from customers when companies are sold. The balance is not right and it is extremely surprising that neither Ofgem nor Government have up till now been willing even to make the data transparent and to discuss and give their views on the issues. Again this should now be done in the Ofgem review of the energy market.
Relative Prices

Tariff Differentials

- The position here is shocking and has been getting worse. Customers with prepayment meters and those paying by cash/cheque are subsidising those paying by direct debit and online.

- Customers using prepayment meters for electricity and gas, according to BERR, are paying on average £990 pa in 2007 compared with the average for a direct debit customer of £845 pa. This is a gap of £145, a huge differential of 17%; the gap was £92 pa for gas and £53 pa for electricity.

- In 2004 the gap was £70 pa and it was similar in previous years, so the gap has increased a very great deal.

- Customers on standard credit for electricity and gas (i.e. those paying by cash or cheque) are paying £85 more than direct debit customers in 2007 compared with £36 pa in 2004. This is another huge increase.

- In the very recent price increases in early 2008 there was little change in absolute terms on average in the differentials, except that the differential between prepayment/standard credit and online tariffs seems to have increased still further.

- There are very significant differences between companies. In some companies prices to prepayment and standard credit customers and/or the differentials are more reasonable than in others. There are also differences in service levels e.g. number of payment outlets, availability of 24/7 service.

- Prepayment customers have lower incomes than others; 40% were in the two lowest deciles in England in 2005/6 compared with 20% of all customers and less than 5% were in the top 2 deciles. In 2006 19% of those paying for both fuels by prepayment were fuel poor compared with 6% for direct debit customers – an incidence of fuel poverty more than 3 times as high amongst prepayment compared with direct debit. The incidence of fuel poverty amongst standard credit customers is also fairly high.

- The prepayment-direct debit gap was a big one even before the increases of recent years, for instance it was £28 for electricity in 2004 in GB (compared with £6 in Northern Ireland).

- The increase in the gap is difficult to understand. Margins on prepayment and standard credit customers appear to have increased significantly in relative terms as there is no reason why relative costs should have gone up.
About three quarters of gas and electricity costs are wholesale supply and transportation, in which there is little difference between prepayment and direct debit costs; the £145 differential thus represents over 60% of the remaining elements of the price.

The position is even worse than this, because a number of companies are now offering very cheap online tariffs, around £100 below "normal" (offline) direct debit. The average price gap between prepayment and online for 2 fuels is over £250 pa. And those customers staying with their traditional supplier for electricity and gas are paying on average a striking £360 more on average than if they took both fuels online from their traditional electricity supplier.

Ofgem in its Domestic Retail Market Report (June 2007) estimates that costs to companies for a prepayment customer for both fuels are £85 more than the costs for a direct debit customer. The costs for a standard credit customer are £20 more than for a direct debit customer. Thus the gap in prices paid by customers is far greater than the gap in costs. Prepayment and standard credit customers are therefore significantly subsidizing direct debit customers.

Social Tariffs

Ofgem did useful work on suppliers' social tariffs and social programmes, following a suggestion from FPAG, and the Government was supportive of this work. FPAG in its analysis of the Ofgem work highlighted two companies that were lagging in their social programmes; Npower and Scottish Power. Both of these have now introduced more extensive social tariffs or have committed to do so. This has reduced the divergence between the suppliers' existing or planned programmes.

FPAG's work based on Ofgem data takes account both of social programmes and the overall prices charged by different companies to low income customers. It seems to us to be important that both aspects are considered in any analysis.

The progress on social tariffs and programmes is helpful, but – as is now acknowledged – this is in no way adequate to offset the sharp deterioration in the relative prices paid by low income customers because of the widening price differentials described above. As a result of the differentials, customers on prepayment/standard credit are paying at least £600m more than they would on a cost reflective tariff, whereas social tariffs and programmes provide benefits for customers which are very welcome, but which amount to around £50m pa.
Recommendations on Relative Prices

There is a menu of possible actions on relative prices. Some of these are alternatives. We set out below the range of possible activity. In order to drive all this forward there should be the following actions by Ofgem and Government, in the context of Ofgem's probe into the energy markets and actions following the Budget announcements.

- Ofgem should make the issue of price differentials a Special Project with adequate resources.

- The Government should provide further resources (from the abolition of Winter Fuel Payments for higher rate tax payers or the auctioning of EU ETS Permits) to enable extensive local advice to be given to low income households on switching and on the best tariff available, linked to other advice on energy efficiency, in order to cut fuel bills.

- As proposed last year the Treasury should, within Government, take the lead with a determination to find a solution on low cost payment methods.

The menu of specific actions (some of them alternatives) is:

- Ofgem should assess the relationship between relative prices and relative costs and, for companies where prices and costs are far out of line, should consider whether further action – legal, regulatory, guidance, persuasion – should be taken. It may well be possible to use existing licence conditions and sales codes and/or it may be necessary to introduce changes. Ofcom is taking action on similar issues and it may be possible to learn from this.

- There should be reserve powers in the Energy Bill to prevent companies with exceptionally high prepayment prices from taking on new prepayment customers. This is important as there is evidence that a very large number of prepayment customers, who switch, are switching to worse deals.

- As an alternative where prepayment customers are applying to switch to a worse deal, companies about to receive such customers should by self-regulation or by Energy Bill provisions, be obliged to explain the position to such customers in a clear way. It is appreciated that this will be affected by differences in service levels.

- The Government should strengthen its Environmental and Social Guidance to Ofgem.

- The Government should, as it is doing, consider the use of its existing powers on prepayment meter tariffs, under the Utilities Act.

- Those companies with wide differentials should radically re-examine their policies.
The market is clearly not working for many low income customers. Much more advice and guidance should be provided by voluntary and local organisations for low income customers on the benefits of switching suppliers, the advantages and disadvantages of different payment methods and on the best prices available. Local organisations will need to be resourced for this. This guidance should be linked to energy efficiency and money advice services.

Eaga, with its very good contacts with, and channels to, low income customers could play a useful role here, but an important proviso is that additional funds would be needed – this should not be at the expense of the already inadequate fuel poverty programmes for energy efficiency and central heating.

It will be important to ensure that no more prepayment meters are installed than necessary in debt situations e.g. where payment by instalments or fuel direct would be feasible.

The price comparison and switching sites should provide the same facilities for prepayment as for other customers.

The debt blocking situation should be reconsidered especially but not only where the receiving company is willing to take on the debt.

Smart pay as you go meters are now available which would significantly reduce the cost to serve of prepayment customers. There should be a determined drive by Government and Ofgem to secure the installation of such meters at the earliest possible opportunity.

Banking arrangements can make a contribution by encouraging more customers to pay by direct debit and the Treasury should play a significant role here.

Post Office budgeting arrangements are well worth pursuing and the Government should be encouraging such arrangements for the successor to the Post Office Card Account.

Energywatch has provided tireless support and advice for customers, especially low income customers, on prices and other issues, and it will be important for the successor to the National Consumer Council to take on this role as far as is feasible.

There should be strong minimum standards on social tariffs and the Government should take reserve powers in the Energy Bill on Social Tariffs and Programmes.

If progress is not made by other means, the size of the differentials between different payment methods should be re-regulated. The Government should take powers in the Energy Bill to direct Ofgem to do this.
Budget 2008

Four issues relevant to fuel poverty were picked up in the Budget:

- The companies’ social programmes and social tariffs.
- Differentials between prepayment and other prices.
- Winter fuel payments.
- Solid wall insulation.

FPAG is very pleased that the severity of the fuel poverty situation has begun to be recognised and all the proposals/intentions are welcome. It is particularly important that the issue of the price differentials is being addressed. Our key points at this stage are:

- It is important that the intentions should be translated into action.
- We strongly believe, as the Government does, that progress can be made on these issues, but the impact of any proposals on fuel poverty needs to be carefully assessed so as to secure the most effective measures possible.
- In assessing companies’ performance the level of their prices as well as their social programmes is important.
- The differential between the prices for cash/cheque and direct debit/online customers is also important.
- Independent electricity generators as well as the energy supply companies should contribute to any fuel poverty fund as their profitability has increased sharply and this will increase the size of the fund and/or reduce the adverse impact on prices to customers generally.
- We are very concerned that the process for decision making about the social programmes may not be transparent and may not involve FPAG and its members.
- We appreciate that the increase in the Winter Fuel Payments will be welcomed by pensioners. It remains our view that the required funding for the fuel poverty programmes could be secured by excluding higher rate tax payers from the Winter Fuel Payments.
4 Sales of Companies and Assets

There is a clear problem with the regulatory system, and opportunities for securing benefits for customers are being missed. Companies and assets, especially electricity and gas distribution companies/assets, are being sold at prices well above their Regulatory Asset Values. The most recent example is United Utility’s sale of its electricity distribution business at a price 45% above its Regulatory Asset Value.

There can sometimes be reasonable explanations for high prices in such situations when companies are sold, but this has been repeated several times both in energy and water. It does not seem that the high prices are solely the result of the incoming companies overpaying or being able to reduce costs significantly (with consequent benefits over time for customers).

FPAG’s earlier comments on this issue were rather ignored by Ofgem in the Gas Distribution Price Control Review.

The balance between gains for shareholders and customers in these situations seems to FPAG to be wrong. This is particularly important at a time when customers are facing very large price increases.

The Ofgem review of the network regulatory system which is expected to pick up this issue is very welcome and it is hoped that it will result in changes.

If this does not resolve the issue then some of the gains in these sale situations should be returned to customers in the form of lower prices after the sale, or via fuel poverty programmes.

The Energy Bill should, therefore, contain a small change in Ofgem’s duties to fill the gap in Ofgem’s ability to act in customers’ interests in these situations, exposed by Ofgem’s inability in the United Utility and, earlier, National Grid sales to secure for customers a share of the gains.

5 Resources and the Fuel Poverty Programmes

Warm Front

In 2007/8 Warm Front expenditure is £350m. Over the 3 years of the Comprehensive Spending Review Period from April 2008 to March 2011 expenditure will be £800m or £267m pa on average in money terms, equivalent to £250m pa in real 2007/08 terms. This is a cut of 25%/30%.
Warm Front has been an exceptionally successful scheme:

- It has reduced fuel bills for low income customers – by £200 pa or 20% in 2006 and there are comfort gains in addition.
- It has reduced CO₂ emissions in a very cost effective way. According to the Defra 2006 evaluation of the 2000 Climate Change Programme, it was one of the most effective carbon saving mechanisms across all sectors.
- It has always spent the money allocated to it through its success in finding eligible customers.

There have been some issues with Warm Front – the need for top-up contributions that ought to be resolved by Defra, and some questions about the quality and cost of delivery in individual cases, which are being taken seriously. A recent review of Warm Front by Defra’s independent quality assessors was very favourable. In any case, none of this should detract from the overall importance and contribution of the programme for fuel poverty.

The job of tackling fuel poverty has to be a partnership; the other partners especially energy companies will be less inclined to take the issue seriously if Government appears to be reducing its efforts.

The cut in Warm Front is, to put it mildly, difficult to understand – given the programme’s success and given the still more pressing need, in the wake of the price increases, to improve the energy efficiency of homes and heating systems. The programme has been cut when fuel poverty is at its highest level for nearly a decade.

Carbon Emissions Reduction Target (CERT)

The key features of CERT from the point of view of low income and fuel poor customers are:

- The overall size of the CERT target from April 2008 to March 2011 for all customers has broadly doubled from the preceding EEC2 scheme.
- The costs, according to Defra, to suppliers will be 2.3 times those of EEC2.
- The Priority Group has been enlarged to include all those over 70 as well as those on Benefit.
- This has increased the size of the Priority Group from 8.8m to 11.2m, from 33.5% to 43% of all households.
- The share of the Priority Group in the benefits of CERT has been reduced from 50% to 40%.
Suppliers will have the option of meeting 12.5% of their Priority Group (5% of their total) target by focussing on specified measures to Private Sector customers in the old (benefits based) Priority Group. These measures are solid wall insulation for properties on and off the gas grid and ground source heat pumps for those off the gas grid.

Defra estimates of the costs of meeting the Priority Group obligations are just over £500m pa (55% of all Priority Group and non-Priority Group CERT costs).

The overall cost of CERT is estimated to be £19 per customer per fuel per annum and, if passed on in full, this constitutes 4.5% of energy bills.

FPAG’s views on this are:

The Government admittedly had a difficult job to balance various objectives in CERT and there are some welcome features. However, overall even this CERT package on its own is disappointing for FPAG.

The changes in CERT can in no way be regarded as compensating for the cut in Warm Front.

The share of the benefits for the Priority Group in CERT has been reduced and is less than the proportion of Priority Group households in the population. Under EEC2 50% of the Benefits went to the 35% of households in the Priority Group, whereas under CERT 40% of the Benefits go to 43% of the households, given the now larger Priority Group. This is a highly regressive change. Priority Group customers are likely to pay 100% more for CERT than they did for EEC, but they will only receive about 40-50% of the additional Benefits.

As a result of the enlargement of the Priority Group there is rather less focus on low income households and somewhat poorer targeting on fuel poverty – although the incidence of fuel poverty amongst the over 70s is fairly high.

The Flexibility Option with its focus on hard to treat homes is welcome, as is the decision that suppliers will, under the Flexibility Option, be able to switch between different kinds of measures to the Priority Group and will not be able to increase non-Priority Group work at the expense of Priority Group measures.

In summary there will be increased activity on fuel poverty as a result of the overall expansion of EEC/CERT, but the increase in benefits for the Priority Group will, as noted, be markedly less than the increase in prices paid by them. In addition the Priority Group is somewhat less focused on low income households and on fuel poverty.
Size of the Programmes

As a result of all these changes, the size of the annual average programme over the three years April 2008 to March 2011 is likely to be as set out in Table 3.

**TABLE 3**
**FUEL POVERTY PROGRAMMES APRIL 2008 TO MARCH 2011**

<table>
<thead>
<tr>
<th></th>
<th>£m 2007/8</th>
<th>£m 2008/11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Average</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warm Front</td>
<td>350</td>
<td>270</td>
</tr>
<tr>
<td>EEC/CERT</td>
<td>190</td>
<td>450</td>
</tr>
<tr>
<td>Decent Homes</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>640</td>
<td>770</td>
</tr>
</tbody>
</table>

The basis for these estimates, especially for CERT, is set out in Appendix 3. The balance between CERT and Decent Homes expenditure may be different if, as seems likely from CLG research, social landlords will be doing considerable work on the energy efficiency of their homes and hence they will make greater contributions to CERT work. However, the total size of the programme will not be affected.

In last year’s Annual Report FPAG estimated that a programme of about £1bn pa was needed from 2008-2016 and that total expenditure would be £830m pa if Warm Front was maintained at £350m pa and if EEC/CERT was implemented as expected. This was “below, but not too far below” the £1bn required.

However, as a result primarily of the cuts in Warm Front, expenditure will now only be £770m instead of £830m. This is clearly still a sizable programme, but:

- It falls well short of requirements
- With the price increases, greater – not smaller – programmes are needed. If the price outlook is now worse, then the required programmes will be greater than £1bn pa.
- There has been a shift from Government to energy supplier programmes, with customers, including low incomes customers, consequently bearing a greater share of the costs – which is unhelpful for fuel poverty.
FPAG hopes that the Government will, in light of the price increases and the continuing outlook for higher prices, assess again the case for reinforcing the drive to increase the energy efficiency of the homes and heating of those in fuel poverty.

6 Other Government Programmes – Current and Future

Current Programmes

There are a number of other current Government and other programmes.

- The Government has allocated £6.3m for England for 2007-8 under the Community Energy Efficiency Fund in order to develop Local Area Based Schemes. Fifty projects have been offered funding with the expectation of helping 600,000 vulnerable households. One of the projects, for example, targets very small areas of the most deprived communities. The intention is that the funding should leverage in significant additional resources. The schemes could however be affected by the cutbacks in Warm Front and in private sector renewal funding.

- The Design and Demonstration Unit of BERR, in co-operation with a number of Regional Development Authorities, is securing gas network extensions and the installation of small scale renewables off the gas grid via the establishment of Community Energy Solutions companies. Through these companies gas network extensions have been provided to 8 communities with 2,000 households and 450 heat pumps have been installed. Another 28 community gas projects and 38 renewables projects are at various stages of development and 24 more gas and 22 more renewable projects are being evaluated.

- Ofgem in its gas distribution price control has introduced provisions that will facilitate gas network extensions. There are about 2,000 deprived communities of 50 or more households within 2km of a gas main, which would be eligible for the incentives – although it is not known at this stage how much work will, in practice, be done under the new provisions.
On the other hand there will be less funds for private sector housing renewal and regeneration as a result of greater focus on new housing. Some Regions could face cuts of up to 30% in their Private Sector Renewal Funding. These Private Sector Renewal Funds are used for a wide range of measures, but there will be an impact on energy efficiency expenditure. In addition the housing target in the Public Service Agreement relates to new housing, removing the previous target to increase the proportion of vulnerable households in private sector houses that meet the Decent Homes Standard.

Energywatch has provided extensive advice and support for customers, and has drawn on its experience on the ground to highlight problems and to propose and argue for solutions, and it has been an unstinting advocate for low income customers. It is extremely unfortunate that energywatch is being abolished. The successor to the National Consumer Council clearly has the potential to fulfill some of energywatch’s role, but it will need both the necessary resources (which may not be available) and intense focus.

Energy efficiency advice for low income households will be reduced following the EST/Defra reorganisation of the provision of energy advice and of the energy efficiency advice centres. The greater emphasis on carbon reduction rather than energy efficiency may also shift the focus in advice schemes to the fuel rich rather than those in fuel poverty.

If the Home Energy Conservation Act is repealed, as Defra is proposing, there are likely to be fewer experienced staff and lower resources for fuel poverty and energy efficiency in Local Authorities. In FPAG’s view the repeal should be postponed pending a review of the working of the new Local Authority Government Performance Fuel Poverty Indicator (see Section 2) and in particular an assessment of whether it is included in most Local Area Agreements.

A winter mail out to 250,000 households on Pension Credit is being carried out by DWP in cooperation with energy suppliers and Eaga, primarily to promote energy efficiency measures. It was encouraging that DWP was prepared to go ahead with this mail out (with very strong safeguards) in spite of the public focus on the protection of data.

**Supplier Obligation**

The Government is considering a form of supplier obligation that might replace CERT after 2011. FPAG is extremely concerned that this might result in further downgrading of the social part of supplier’s energy efficiency and carbon reduction obligations. Our views are:

- A sizeable social obligation will continue to be required.
Our current preferred solution is a development of the current CERT approach, but it should be more flexible than at present allowing a wider range of measures and possibly providing for area based approaches (e.g. in conjunction with Local Authorities). This would constitute a greater separation between the carbon reduction and social obligations and programmes.

We will be looking at some of the alternative approaches being put forward by others in response to Defra’s call for evidence and we will assess them.

There should be a review of the interaction between CERT and Warm Front before the decisions for both programmes post 2011 are made.

It will be important for Defra to drive forward research and development on solid wall insulation. The schemes, however well developed, will be ineffective if measures acceptable to customers and at reasonable cost are not available. Defra has seemed rather complacent about this, although in the Budget it was announced that some research in this area is being supported.

Similarly Defra will need to take the lead in securing the development of equity release, fit for purpose, for relatively small sums of money and for home improvements like energy efficiency and micro generation; and also of other financing schemes.

7 Climate Change and Fuel Poverty

There are clearly huge interactions between the fuel poverty and climate change programmes. To give the two clearest examples:

- Both require the same measures in homes – mainstream measures especially cavity wall and loft insulation, solid wall insulation; and technologies, which at least in the UK are less developed, for example heat pumps and solar thermal.

- Policies on climate change will raise prices and will make the fuel poverty targets harder to achieve.

It will be extremely important that climate change policies should be as cost effective as possible, i.e. they should secure reductions in carbon emissions at minimum costs so as to minimise the impact on prices. This has not always been the case so far in Britain.

The choice of climate change policies will significantly affect their impact on fuel poverty. For example heavy reliance on prices to secure reductions in demand or in carbon emissions generally will have a different effect from regulatory intervention, (and possibly a much more regressive one).
If climate change policies do raise prices then increases in the fuel poverty programmes will be needed. More generally, if energy prices remain high it will be even more critical to “fuel price proof” the homes of low income households. Whilst it will clearly be important to keep costs and prices generally as low as possible, it remains the case that the only sustainable way to end fuel poverty is through energy efficiency (and now also microgeneration).

At the same time such increases in the fuel poverty programmes will be needed to meet ambitious carbon objectives. One third of households in Britain are on income related or disability benefits or tax credits. It will be necessary radically to improve the energy efficiency of their homes under fuel poverty or similar programmes in order to meet the Government’s long term carbon reduction goals. It will not be possible to reduce the emissions from the household sector to the extent necessary unless this one third of the housing stock is included in the programmes.

These points were well highlighted in a recent Friends of the Earth report – “Home Truths”.

In recognition of the importance over time of substantial reductions in the energy requirements of existing buildings, lived in by low income households, an FPAG sub-group is now focussing on microgeneration and measures needed to secure the installation of microgeneration equipment in low income households. Clearly it will be necessary to ensure that these are cost effective ways of reducing carbon emissions.

8 Information Sharing

We are keen that information on households should, with appropriate safeguards, be shared to help with the take-up of fuel poverty programmes and support for low income groups, to reach those in need, and to improve targeting. We recognise that, in the wake of the incidents of the lost personal data, there is heightened concern about privacy and data protection, that there will need to be effective safeguards and that a balance will have to be struck.

We are very concerned to secure progress in two areas in the short run:

- **Local Authorities generally cannot use data on Council Tax Benefits and Housing Benefit for their own citizens for targeting their fuel poverty programmes.** FPAG has argued that this makes no sense. There does seem to be a willingness by Government to consider this and they are currently working with the Local Government Association to assess whether there are other areas as well as fuel poverty where such data are needed within the Local Authority. We hope that there will be rapid progress and there should be provisions on this in the Energy Bill.
Energy Performance Certificates, provided as part of the Home Improvement Packs, supply invaluable information on the energy efficiency of homes and on potential measures for improving energy efficiency. It is essential that this data should be made available to Local Authorities with housing responsibilities, especially as it is partly in the public domain in any case. If this worked satisfactorily then the information could be provided for energy and energy efficiency companies. No decision has yet been made on all this.

In addition, in the medium term DWP data on customers on benefit should be made available, with the necessary safeguards, to the energy and energy efficiency companies, so that they can target more effectively their social tariffs and energy efficiency programmes for vulnerable customers.

9 Smart Meters

- Smart meters are potentially good news for customers generally and low income customers in particular. The provision of low cost “pay as you go” meters would be a major breakthrough and accurate bills with no estimates would provide significant benefits.

- The decision should be made to introduce Smart meters for all customers over a specified time period, and this should be mandated by Government to avoid long delays in resolving some of the issues.

- If this is only being done gradually then we would strongly recommend fast tracking Smart meters for prepayment customers.

- Whilst it is important to realise the potential of Smart meters for a number of objectives it will be essential to avoid over sophistication and unnecessary costs in the specification of meters, and to avoid consumers bearing an unfair burden of costs.
10 Targeting of those in Fuel Poverty

One of the key challenges for all fuel poverty programmes is to locate and target those in fuel poverty. This is particularly difficult as fuel poverty results from a combination of poor housing/heating and low incomes. Targeting of Warm Front has been improved considerably over recent years and for a variety of reasons FPAG do not believe it is sensible to attempt to confine Warm Front measures to a much smaller targeted group. However, it is recognised that when more expensive measures such as solid wall insulation are installed on a larger scale it will be important to target these on households in, or at risk of, fuel poverty. This is current unfinished business for FPAG. The challenges can be seen from Table 4 below.

### TABLE 4
**TARGETING THE FUEL POOR**

<table>
<thead>
<tr>
<th>All Households</th>
<th>Fuel Poor Households</th>
<th>Proportion of all fuel poor</th>
<th>Proportion of households in group</th>
</tr>
</thead>
<tbody>
<tr>
<td>All households</td>
<td>20,931,000</td>
<td>2,401,000</td>
<td>100%</td>
</tr>
<tr>
<td>All households with a SAP under 30</td>
<td>1,765,000</td>
<td>670,000</td>
<td>28%</td>
</tr>
<tr>
<td>All households in PG off gas</td>
<td>964,000</td>
<td>308,000</td>
<td>13%</td>
</tr>
<tr>
<td>All households off gas with a SAP under 30</td>
<td>924,000</td>
<td>376,000</td>
<td>16%</td>
</tr>
<tr>
<td>SAP under 30 or off gas</td>
<td>3,648,000</td>
<td>830,000</td>
<td>35%</td>
</tr>
<tr>
<td>Households in PG with SAP under 30</td>
<td>598,000</td>
<td>389,000</td>
<td>16%</td>
</tr>
<tr>
<td>Households in PG off gas and SAP under 30</td>
<td>326,000</td>
<td>209,000</td>
<td>9%</td>
</tr>
<tr>
<td>Households in PG off gas or SAP under 30</td>
<td>1,236,000</td>
<td>487,000</td>
<td>20%</td>
</tr>
<tr>
<td>Households in PG SAP under 40</td>
<td>1,183,000</td>
<td>634,000</td>
<td>26%</td>
</tr>
<tr>
<td>Households in PG off gas and SAP under 40</td>
<td>485,000</td>
<td>265,000</td>
<td>11%</td>
</tr>
<tr>
<td>Households in PG off gas or SAP under 40</td>
<td>1,663,000</td>
<td>677,000</td>
<td>28%</td>
</tr>
<tr>
<td>Description</td>
<td>All Households</td>
<td>Fuel Poor Households</td>
<td>Proportion of all fuel poor</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>----------------</td>
<td>----------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>Households in PG SAP under 50</td>
<td>2,467,000</td>
<td>1,012,000</td>
<td>42%</td>
</tr>
<tr>
<td>Households in PG off gas and SAP under 50</td>
<td>639,000</td>
<td>294,000</td>
<td>12%</td>
</tr>
<tr>
<td>Households in PG off gas or SAP under 50</td>
<td>2,792,000</td>
<td>1,026,000</td>
<td>43%</td>
</tr>
<tr>
<td>Households in PG with a SAP under 40 plus all pensioner households</td>
<td>6,947,000</td>
<td>1,484,000</td>
<td>62%</td>
</tr>
<tr>
<td>All with a SAP under 40 and all in PG and all pensioners</td>
<td>12,038,000</td>
<td>2,234,000</td>
<td>93%</td>
</tr>
<tr>
<td>All with SAP under 40 and all pensioners</td>
<td>8,995,000</td>
<td>1,682,000</td>
<td>70%</td>
</tr>
<tr>
<td>SAP rating under 40 plus all others on Pension credit</td>
<td>4,947,000</td>
<td>1,228,000</td>
<td>51%</td>
</tr>
<tr>
<td>(SAP rating under 40 and off mains gas network) plus all others on pension credit</td>
<td>2,199,000</td>
<td>608,000</td>
<td>25%</td>
</tr>
<tr>
<td>(SAP under 40 or off mains gas) plus all others on pension credit</td>
<td>6,205,000</td>
<td>1,299,000</td>
<td>54%</td>
</tr>
<tr>
<td>Households with a SAP under 40 who are receiving pension credit</td>
<td>166,000</td>
<td>89,000</td>
<td>4%</td>
</tr>
<tr>
<td>All households with a SAP under 40</td>
<td>4,195,000</td>
<td>1,082,000</td>
<td>45%</td>
</tr>
<tr>
<td>All households in PG</td>
<td>6,389,000</td>
<td>1,540,000</td>
<td>64%</td>
</tr>
<tr>
<td>All households in PG and private sector</td>
<td>3,505,000</td>
<td>1,077,000</td>
<td>45%</td>
</tr>
<tr>
<td>Households with at least one PPM – PG</td>
<td>2,043,000</td>
<td>529,000</td>
<td>22%</td>
</tr>
<tr>
<td><strong>2006</strong></td>
<td>All Households</td>
<td>Fuel Poor Households</td>
<td>Proportion of all fuel poor</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------</td>
<td>----------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Households with at least one PPM – All</td>
<td>3,323,000</td>
<td>632,000</td>
<td>26%</td>
</tr>
<tr>
<td>Households with at least one PPM or one fuel on SC – PG</td>
<td>4,413,000</td>
<td>1,155,000</td>
<td>48%</td>
</tr>
<tr>
<td>Households with at least one PPM and one fuel on SC – All</td>
<td>10,641,000</td>
<td>1,662,000</td>
<td>69%</td>
</tr>
<tr>
<td>Households with prepayment for both gas and electricity – PG</td>
<td>1,330,000</td>
<td>332,000</td>
<td>14%</td>
</tr>
<tr>
<td>Households with prepayment for both gas and electricity – All</td>
<td>1,935,000</td>
<td>376,000</td>
<td>16%</td>
</tr>
<tr>
<td>Households with both fuels on Direct Debit – PG</td>
<td>1,711,000</td>
<td>307,000</td>
<td>13%</td>
</tr>
<tr>
<td>Households with both fuels on Direct Debit – All</td>
<td>9,220,000</td>
<td>581,000</td>
<td>24%</td>
</tr>
<tr>
<td>Households with Elec PPM and Off gas – PG</td>
<td>281,000</td>
<td>100,000</td>
<td>4%</td>
</tr>
<tr>
<td>Households with Elec PPM and Off gas – All</td>
<td>471,000</td>
<td>126,000</td>
<td>5%</td>
</tr>
<tr>
<td>Households with solid walls – PG</td>
<td>1,887,000</td>
<td>655,000</td>
<td>27%</td>
</tr>
<tr>
<td>Households with solid walls – PG, on gas</td>
<td>1,617,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households with solid walls – PG, off gas</td>
<td>269,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households with solid walls – All</td>
<td>6,277,000</td>
<td>1,032,000</td>
<td>43%</td>
</tr>
</tbody>
</table>

Source: EHCS 2004 updated to 2006
The table shows the proportion of fuel poor who are in certain groups and the incidence of fuel poverty amongst these groups, for example the 6th row shows that 65% of households in the old (benefits based) Priority Group with a SAP rating under 30 were in fuel poverty in 2006. They constituted 16% of the fuel poor. The table shows that there are groups with a high incidence of fuel poverty in this way, e.g.

- Old Priority Group with SAP under 30 – 65% in fuel poverty
- Old Priority Group with SAP under 40 – 54% in fuel poverty
- SAP under 40 receiving pension credit – 54% in fuel poverty

On the other hand these are relatively small groups and they therefore only account for a relatively small proportion of those in fuel poverty. At best those in the Priority Group with a SAP under 40 make up a quarter of those in fuel poverty. At the other end of the scale, all those with a SAP under 40, all in the Priority Group and all pensioners constituted 93% of those in fuel poverty, but there are 12m of such households and the incidence of fuel poverty amongst them is 19%.

Work on this targeting issue is continuing. It seems highly likely that for some of the high cost measures, visits to the homes will be needed to assess whether the household is in, or at risk, of fuel poverty. This is expensive and is not worthwhile for low cost measures, but might be necessary for higher cost measures.

11 Fuel Poverty Target and Lessons for the Future

It will be helpful, both for future work on fuel poverty and for other areas of policy, to try to understand why the Government seems to be failing to meet the fuel poverty targets. Neither the threat of judicial review nor the potential political pressures have been enough to keep the Government on track, although there have recently been some important signs of changes. Yet these same arguments – judicial review and political pressure – have been used by the Government to underline the likely effectiveness of its Climate Change targets. It is interesting to note that recent Government amendments to the Climate Change Bill are strengthening the mechanisms for compliance, and trying to increase the chances of the Government in practice being obliged to meet the targets.

There are a number of reasons for the failure on fuel poverty. In this there is both criticism of, and some sympathy for, the Government.

- There have been adverse external factors, in particular the rising world energy prices.
The Government has been unable and/or unwilling to react to the challenge of rising prices. A great deal of work has been done within Government to try and make progress, but from the outside it appeared as if the Government had given up rather than looking hard at the position and re-assessing its policies in a radical way when the fuel poverty target started to look very difficult. There has now, in the Budget, been some shift in this.

Ofgem, which is an important Government repository of expertise on energy, has until recently been a particular problem. While, as noted, they are engaged on some aspects of fuel poverty, they have generally been an obstacle to a radical reassessment of some aspects of policy and Government has been unwilling or unable to influence them. This raises issues about independent regulation. (There are now signs that Ofgem as well as Government may be changing their approach).

Other parts of Government, e.g. Communities and Local Government and the Department of Health have been difficult to engage.

Government philosophy/ideologies have played a role. The Government is wedded to market solutions. Whilst FPAG recognises the benefits of the market, this does seem to result in an unwillingness to face up to issues and to assess whether, in particular cases, the market is working badly and what can be done to improve matters. Again there may be some changes here.

The Government has other objectives, for example Communities and Local Government have not seen fuel poverty as a primary goal. Objectives of privacy, data protection, human rights prevent some of the simplest things from being done, e.g. Local Authority access to their own data on council tax benefit and housing benefit recipients for the purposes of targeting their fuel poverty programmes.

There are public expenditure constraints. There have in the past been large increases in the fuel poverty programmes but they have not been enough. This connects with other objectives. It would be possible to finance increases in the programmes if winter fuel payments were discontinued or removed for higher rate taxpayers. But there are political issues here and fears by Government about the public reaction.

Fuel poverty had, until recently at any rate, gone down the political agenda with concerns focused more heavily on climate change and energy security. Very recently more attention has been paid to fuel poverty – it is not yet known how durable this will be.

The existence of the statutory targets has been helpful and has unquestionably resulted in more progress than would have been made in their absence, but it seems that they will not be adequate to secure the objectives of eradicating fuel poverty.
Appendix 4 describes the impact of the Fuel Poverty Advisory Group over the six years of its existence.

12 **Energy Bill: Recommendations**

The Energy Bill should in FPAG’s view contain:

- Provisions on the high prepayment prices (section 3)
- Reserve powers on social tariffs and programmes (section 3)
- Small change in Ofgem’s duties (section 4)
- Provisions to secure information sharing (section 8)
- Provisions on smart meters (section 9)

13 **Roles of Government Departments**

Fuel Poverty is a cross cutting Government issue. This section sets out the roles and responsibilities of the various Departments. We submitted a note along these lines to BERR, with the intention that this could form the basis for a Delivery Plan on fuel poverty, associated with the setting of Departmental objectives and the Comprehensive Spending Review, but the Government did not pursue this.

We highlight in this section some of the more important actions which are not emphasised in the introduction.

**Defra**

- Secure the necessary funding to restore Warm Front to at least at 2007/8 levels of about £350M pa (with Treasury).
- Share of benefits of CERT for low income customers (Priority Group) and nature of provisions for low income customers.
- Implement programmes for developing and installing non-mainstream measures (e.g. household renewables and solid wall insulation) probably within existing schemes, with BERR and CLG. (Defra for Warm Front and CERT, BERR for the Low Carbon Building Programme, CLG for social housing and in the context of programmes for improving energy efficiency of the existing housing stock).
Secure an important role for, and wide adoption of, the fuel poverty indicator in Local Area Agreements (with other Departments).

Ensure that the provisions in the Home, Health and Safety System relating to the refusal of Warm Front/CERT are used, and monitor this (with CLG).

Develop further the area based approaches to tackling poverty.

Secure better interaction between Warm Front and CERT (with BERR).

Continue with HECA for a period.

Develop a new Fuel Poverty scheme for the period post 2011 as part of or alongside any scheme that obliges energy companies to secure reductions in carbon emissions from their household customers; such a scheme to secure appropriate benefits for those in fuel poverty/low income customers (with BERR).

Drive forward the installation of low cost pre-payment meters by capitalising on the potential of current technologies (with BERR/Ofgem).

**BERR**

(Ofgem responsibilities are included here.)

Include the provisions outlined in section 12 in the Energy Bill.

Secure reduction in the very large tariff differentials.

Drive forward the installation of low cost prepayment meters by capitalising on the potential of current technologies (with Defra) in the context of a fairly rapid introduction of smart meters.

Secure long term maintenance of reasonable social tariffs from all suppliers either by voluntary agreement or legislation.

Change Ofgem duties to fill the gap in its ability to protect customers, exposed by the sale in recent years of network subsidiaries.

Obtain extensions to the gas network in areas of deprivation.

Auction as many of the EUETS allowances as possible, as quickly as is feasible, and recycle the proceeds into fuel poverty programmes, and in the meantime recover (prospectively) the windfall gains made as a result of free permits.

Implement programmes for developing and installing non-mainstream measures (e.g. household renewables and solid wall insulation) probably within existing schemes, with Defra and CLG (BERR especially for the Low Carbon Building Programme).
Secure better interaction between Warm Front and CERT (with Defra) – possibly through area based programmes.

Work on the fuel poverty aspects of any supplier obligation on carbon emission reductions post 2011 (with Defra).

Secure more involvement from regions and RDAs on fuel poverty (with Defra).

Keep the cost of meeting renewables targets as low as possible.

Ofgem / BERR

Keep prices as low as possible.

Secure reductions in the very large tariff differentials.

Ensure that customers’ interests are adequately protected in the Network Distribution Price Controls.

Drive for low cost prepayment meters.

Ensure gas prepayment charges by National Grid and the gas distribution companies are not increased.

Continue to contribute proactively to the consideration, introduction and promotion of social tariffs.

Help to ensure that maximum use is made of the provisions for gas network extensions in the Gas Distribution Price Control.

Continue to play an active role in the development of CERT and in the Supplier obligation, especially the provisions for the low income groups.

Support the small change in Ofgem duties to fill the gap in its ability to protect customers, exposed by the sales of network subsidiaries.

Continue proactively to contribute to the development of policy – especially the development of carbon reduction policies, to help to ensure that they are as cost effective as possible, and that any gains from the policies (especially EU ETS) are shared reasonably between customers and companies.

Ensure that the companies’ debt and disconnection policies are the best possible.

Department of Work and Pensions

Build on the pilot mail outs to Pension Credit customers (with BERR/Ofgem).

Share data on customers on benefit as far as is possible, building on the N. Ireland and Digital TV experience.
LAs to be able to access for fuel poverty purposes lists of Council Tax and Housing Benefit recipients in their own LA (with others).

In the interim, provide information on new Pension Credit customers and customers with changes of circumstances to Warm Front.

Extend the seamless cross referral service between DWP and Eaga/the energy companies to customers of working age via JobCentreplus.

Secure low cost payment arrangements for low income customers, via direct payments through the successor to the Post Office Card Account, or by a reform and extension of Fuel Direct.

Link AgePlus should include fuel poverty programmes as a priority.

DWP to support Defra in securing role for fuel poverty in Local Area Agreements.

Do everything possible to maximize benefit take-up.

Work with local and community organisations on a range of fuel poverty issues e.g guidance on best prices available and access to the fuel poverty programmes (with others).

Communities and Local Government (CLG)

Local Area Agreements to give reasonable priority to fuel poverty. (With Defra and other Departments)

In the period to 2010 secure a SAP of at least 65, wherever practical, if Decent Homes Standard work is being carried out in a social housing dwelling. For the post 2010 period secure that all social housing has a SAP of at least [65] either via a change in the Decent Homes Standard or through a duty on landlords to achieve a SAP of [65] by 2016, and/or through fair rents reflecting SAP ratings. (All with the Treasury)

The Energy Performance Certificates and the energy data behind them for individual dwellings to be made accessible to LAs and the energy/energy efficiency companies.

LAs to be able to access for fuel poverty purposes lists of Council Tax and Housing Benefit recipients in their own LA (with others).
Implement effectively the legislation on the Home Health and Safety Rating System (HHSRS) and on Houses in Multiple Occupation especially the energy related parts. This includes provision for LAs of necessary resources (with Treasury). In addition, ensure that the provisions relating to the refusal of Warm Front/CERT and HHSRS are used, and actively monitor and report this (with Defra).

Implement programmes for developing and installing non-mainstream measures (e.g. household renewables and solid wall insulation) for social housing (with Defra and BERR). It will also be useful for CLG to stimulate R and D into solid wall insulation so that more effective, cheaper and customer friendly methods can be developed.

**Department of Health**

- Secure significant numbers of referrals to the fuel poverty programmes.

- Strong message to be given from the Centre that referrals from the front line to the fuel poverty programmes are important and worthwhile through some or all of these channels:
  - Meeting between the Minister and Regional Public Health Directors.
  - Competencies of Community Matrons.
  - Common Assessment Procedure.

- Cooperation on Helplines. Government Departments led by the Department of Health to work closely together on winter messaging and helpline provision (with all other Departments involved). If necessary funding to be available from the Department of Health to enable either Eaga or the Energy Suppliers’ Helpline to deal with the health-related queries, which were previously covered by the Keep Warm/Keep Well line.

- DoH to work together with other relevant Departments in other areas to secure priority for fuel poverty and referral to the programmes – specifically on the Local Government Performance Framework, Local Area Agreements, Link Age Plus, Regional Strategies.

- It will be important for a senior member of staff in the central part of Department of Health to have fuel poverty responsibility in order to pursue these points.

- Secure engagement with the LA Home Care Services.
Treasury

- Provide the necessary funding and resources, to restore Warm Front to at least 2007/8 levels of £350M per annum for the period 2008 to 2011; to secure improvements as necessary to the thermal comfort standards beyond those in the Decent Homes Standard in Social Housing; and to enable Local Authorities to implement effectively the legislation on the Home, Health and Safety Rating System and on Homes In Multiple Occupation.

- Take the lead in finding solutions to the problem that the “poor pay more”.

- Auction as many of the EUETS allowances as possible, as quickly as is feasible, and recycle the proceeds into fuel poverty programmes, and in the meantime recover (prospectively) the windfall gains made as a result of free permits (with BERR).

All

- Government to commit to use all the frontline contacts of Government, Local Authorities and related agencies with vulnerable customers and all the available information to find those who would benefit from the Fuel Poverty Programmes and other support with their fuel bills.

- Draw up and publish soon a Fuel Poverty Business Plan for the period 2008 to 2011. This should form part of a longer term strategy to eradicate, as far as reasonably practical, all fuel poverty by 2016 – as required by statute.

14 Conclusions

The Government remains concerned about the issue of fuel poverty and has begun again to be proactive. However four points stand out:

- On Warm Front we were aware of the risks of cuts but were completely taken aback by their savagery.

- Never in our wildest nightmares did we imagine that some of the energy companies would drive up the differences between the prices of those paying by different methods to current levels. It is now important that action by the Regulator, the companies and the Government should result in significant improvements.
On prices generally the complacency for a long period of time of Government, largely supported by Ofgem, in the face of apparently higher prices than necessary from some of the energy companies, has been startling. It is hoped that the Ofgem probe, the Ofgem summit and the Budget objectives will lead to some improvements both on the level of prices and on price differentials.

Fuel poverty was omitted from the serious Government targets and the roles of each Department on fuel poverty were not set out in the Comprehensive Spending Review Framework.

Fuel poverty has again become a visible and important issue both for the public and for the Government. It is important that it should remain so. The Government now seems very likely, in the light of the Budget announcements, to take or stimulate a number of helpful measures. The Government has not, however, recognised the increased importance and urgency in a world of high energy prices of securing the highest possible energy efficiency in the dwellings, heating and equipment of low income households. Without this recognition and without the necessary resources for the fuel poverty programmes, especially the Government programmes, the statutory fuel poverty target will not – in spite of the other useful actions – be reached.
## Membership of the Fuel Poverty Advisory Group

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter Lehmann</td>
<td>Chair</td>
<td></td>
</tr>
<tr>
<td>John Chesshire</td>
<td>Vice-Chair</td>
<td>Chair – Energy Efficiency Partnership for Homes</td>
</tr>
<tr>
<td>George Mayhew</td>
<td>Director of Corporate Affairs</td>
<td>National Grid</td>
</tr>
<tr>
<td>Ian Peters</td>
<td>Chief Operating Officer, British Gas</td>
<td>Centrica Plc</td>
</tr>
<tr>
<td>Graham Kirby</td>
<td>Retail Regulation &amp; Energy Policy Manager</td>
<td>E.ON</td>
</tr>
<tr>
<td>Jenny Saunders</td>
<td>Acting Chief Executive Officer</td>
<td>National Energy Action</td>
</tr>
<tr>
<td>Kevin Miles</td>
<td>Chief Executive Officer</td>
<td>Npower Retail</td>
</tr>
<tr>
<td>Gill Owen</td>
<td>Chair</td>
<td>Public Utilities Access Forum</td>
</tr>
<tr>
<td>Sarah Webb</td>
<td>Director of Policy and Practice</td>
<td>Chartered Institute of Housing</td>
</tr>
<tr>
<td>Dr Noel Olsen</td>
<td>Public Health Physician Trustee</td>
<td>National Heart Forum</td>
</tr>
<tr>
<td>Jerry Robson</td>
<td>Chairman</td>
<td>Association for the Conservation of Energy</td>
</tr>
<tr>
<td>Mervyn Kohler</td>
<td>Special Adviser</td>
<td>Help the Aged</td>
</tr>
<tr>
<td>Jonathan Stearn</td>
<td>Head of Campaigns</td>
<td>energywatch</td>
</tr>
<tr>
<td>David Pickles</td>
<td>Energy Agency Manager</td>
<td>Local Government Association</td>
</tr>
<tr>
<td>John Clough</td>
<td>Chief Executive</td>
<td>Eaga plc</td>
</tr>
<tr>
<td>Teresa Perchard</td>
<td>Director of Policy</td>
<td>Citizens Advice</td>
</tr>
<tr>
<td>Eva Eisenschimmel</td>
<td>Chief Operating Officer</td>
<td>EDF Energy</td>
</tr>
</tbody>
</table>
The Fuel Poverty Advisory Group is an Advisory Non-Departmental Public Body sponsored by Defra/BERR. Its primary task is to report on the progress of delivery of the Government’s Fuel Poverty Strategy and to propose and implement improvements to regional or local mechanisms for its delivery.

The role of the Group is:

- To consider and report on the effectiveness of the current policies in delivering reductions in fuel poverty and the case for greater co-ordination;
- To identify barriers to the delivery of reductions in fuel poverty and to the development of effective partnerships, and propose solutions;
- To consider and report on any additional policies needed to deliver the Government’s targets;
- To enthuse, and encourage, key players to tackle fuel poverty;
- To consider and report on the results of the work to monitor fuel poverty.

As will be seen, the Group consists of a wide range of organisations with different views and this is one of its strengths. On many of the issues there is a very large measure of agreement. On others especially EEC and energy prices there are more differences and the views in this report do not always therefore reflect the views of individual members.
Appendix 2

Changes in Gas and Electricity Prices

In total expenditure by consumers on gas and electricity increased by £8.2bn between 2003 and 2006. Fuel cost increases only accounted for a little over half of this – about £4.5bn.

The changes for gas and electricity are set out in Tables 1 and 2 below.

TABLE 1
INCREASES IN PRICES AND PAYMENTS 2003/6 – GAS

<table>
<thead>
<tr>
<th>pence per kwh</th>
<th>pence per kwh</th>
<th>£bn</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Price of Gas to Domestic Customers</td>
<td>Increase in Price of Purchased Gas</td>
<td>Increase in Payments of Gas by Domestic Customers</td>
<td>Increase in Payments for Gas to UKCS Producers and for Imports and Storage</td>
</tr>
<tr>
<td>1.12</td>
<td>0.92</td>
<td>3.95</td>
<td>3.34</td>
</tr>
</tbody>
</table>

TABLE 2
INCREASES IN PRICES AND PAYMENTS 2003/6 – ELECTRICITY

<table>
<thead>
<tr>
<th>pence per kwh</th>
<th>pence per kwh</th>
<th>£bn</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Price of Electricity to Domestic Customers</td>
<td>Increase in Price of Fuel Purchased for Power Generation</td>
<td>Increase in Payments of Electricity by Domestic Customers</td>
<td>Increase in Payments to Fuel Suppliers</td>
</tr>
<tr>
<td>3.49</td>
<td>0.99</td>
<td>4.27</td>
<td>1.20</td>
</tr>
</tbody>
</table>

The numbers are all from published BERR data.

- It can be seen that in electricity there is a marked gap between price and fuel cost increases. The price of electricity to domestic customers increased by nearly 3.5p per kwh between 2003 and 2006, far more than the increase of 1p per kwh in the price paid for fuel used in power generation.

- Expenditure on electricity by domestic customers increased by over £4.3bn, far more than the £1.2bn increase in payments for fuel use in power generation.

- The price of gas to domestic customers increased by 1.12 p per kwh between 2003 and 2006, compared with the increase in the price of 0.96p per kwh paid for purchases of gas from the UK Continental Shelf and from imports and for storage.
Expenditure on gas by domestic customers increased by nearly £4bn – with an increase of a £3.3bn in payments to UKCS producers and for imports and storage.

Other costs have increased by £1.4bn – £370m for gas and just over £1bn for electricity. Tables 3 and 4 give a breakdown of these cost increases.

**TABLE 3**
**INCREASES IN NON-FUEL COSTS 2003/6 – GAS**

<table>
<thead>
<tr>
<th>cost category</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>43</td>
</tr>
<tr>
<td>Metering</td>
<td>37</td>
</tr>
<tr>
<td>Suppliers cost to serve</td>
<td>31</td>
</tr>
<tr>
<td>Energy Efficiency Commitment</td>
<td>73</td>
</tr>
<tr>
<td>VAT</td>
<td>188</td>
</tr>
<tr>
<td>Total non fuel costs</td>
<td>372</td>
</tr>
</tbody>
</table>

**TABLE 4**
**INCREASES IN NON-FUEL COSTS 2003/6 – ELECTRICITY**

<table>
<thead>
<tr>
<th>cost category</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission network use of system</td>
<td>108</td>
</tr>
<tr>
<td>Distribution network use of system</td>
<td>124</td>
</tr>
<tr>
<td>Metering</td>
<td>16</td>
</tr>
<tr>
<td>System losses</td>
<td>379</td>
</tr>
<tr>
<td>Suppliers’ cost to serve</td>
<td>4</td>
</tr>
<tr>
<td>Renewables Obligation</td>
<td>108</td>
</tr>
<tr>
<td>Energy Efficiency Commitment</td>
<td>84</td>
</tr>
<tr>
<td>VAT</td>
<td>204</td>
</tr>
<tr>
<td>Total non fuel costs</td>
<td>1,028</td>
</tr>
</tbody>
</table>

It will be seen that the main increases for the 2 fuels taken together are VAT [nearly £400m], transportation/network charges (£275m), system losses [nearly £400m] and EEC/Renewables Obligation (£260m).
2 points from this are worth noting – additional VAT payments account for £0.4bn of the extra £8bn paid by customers. Environmental policies, taken together [the whole impact of EUETS, EEC and the Renewables Obligation] account for £800m of the extra £8bn, with EU ETS accounting for by far the largest part of this. While the additional costs of the environmental policies are clearly material, they only account for a relatively small proportion (nearly 10%) of the large increase in payments by customers.

The cost increases are overstated here and margin increases are understated as substantial increased profits in gas storage and in distribution are not reflected in the above figures.

Thus prices paid by customers have increased by nearly £4bn more than the costs of fuel and between £1bn and £1.5bn of this can be explained by other cost increases. It seems that there has been a significant increase in margins along the supply chain of over £2.5bn, accounting for as much as 30% of the price increases.

Some increase in margins, especially on power generation, is reasonable given the low prices in 2003, but it seems most unlikely that this could explain and justify such a big increase in margins.

The estimates of the extra margins exclude additional margins made by gas and oil producers on the UK Continental Shelf.

The overall position in 2007 will not be very much different.

We do not know exactly where the extra customer payments have gone and where the extra margins have been taken. The bulk of the extra payments have probably gone to generators – both independent generators like Drax and International Power and to some (although not necessarily all) of the big 6 integrated suppliers such as Scottish Power and Powergen. Generators with a great deal of coal fired plant will have been the biggest gainers. Traders, and also owners of storage and of distribution networks, will also have gained.

There will be significant differences between companies in the margins made.

In any case customers are paying more than they should be.
Appendix 3

Size of Fuel Poverty Programmes 2008-2011

The Warm Front estimate is in section 5 first bullet point.

CERT Priority Group (PG) expenditure is £1519m over the 3 years or £506m pa according to Defra. This is for the new PG of 11.2m households. On the basis of the old PG of 8.8m this is £1193m or £398m pa (506x8.8/11.2). So the range is £398-£506m with a midpoint of £452m.

Defra’s estimates of the cost of CERT PG are based on a view that most of the energy efficiency work for the Decent Homes Standard for social housing is complete. Last year we used £100m pa as a broad brush estimate of Decent Homes expenditure. This has been decreased to £50m this year, in the light of Defra’s assumption. It is possible that the Decent Homes expenditure could be higher, with more contributions to CERT from social landlords, in which case CERT expenditure would be correspondingly lower.
Appendix 4

Impact of the Fuel Poverty Advisory Group

Clearly there are a number of influences on policies. This Appendix sets out a few key areas where FPAG judges that it made a difference although others have obviously played a role as well, and other areas where FPAG’s advice has not been followed.

Positive Impact of FPAG

- Significant increase in funding for the Fuel Poverty Programmes, especially Warm Front in the years up to 2001, in the light particularly of the estimates provided by FPAG of resources required to meet the fuel poverty targets. Some of these increases were funded by increasing upstream taxation as proposed by FPAG.

- Acknowledgement by Government of the seriousness of the fuel poverty situation in 2008 and in particular the recognition by the Government and Ofgem of a need for action on price differentials – in the light of the work and views of FPAG and others.

- Helpful changes to Warm Front in April 2005.

- Introduction of Social Tariffs by a number of suppliers following positive guidance from Ofgem, which had been encouraged by FPAG.

- Incentives for Gas Network Extension likely (although not yet certain) in Ofgem’s Gas Distribution Price Control.

- DWP willing to share information to help in targetting the fuel poor and a generally positive approach from DWP and a willingness to help with data sharing (even if progress was for various reasons less in the end than hoped).

- Provision of data into the public domain from which all players in the fuel poverty arena can draw with confidence.

FPAG Advice Not Followed

- Cuts in Warm Front in the 2008-2011 period.

- Very large and increasing gap between Direct Debit/online prices on the one hand and prepayment and other prices on the other. Ofgem (and BERR) have not been willing to act on this. And there has been no drive to capitalise on new technologies, which could alleviate some of the problems.

- Increase in energy prices generally and lack of transparency about the energy companies’ margins.

- Defra decision to reduce the share of low income groups in CERT – the Energy Suppliers’ Carbon Reduction Programmes.
■ Inadequate energy efficiency requirements of the Decent Homes Standard that still leave some households in fuel poverty.

■ Failure to engage CLG and its predecessors generally and also to persuade Ofgem on a number of key issues.

■ Need for reassessment of policies in order to meet targets in the face of rising energy prices.