

## Memorandum submitted by E.ON UK plc (FP 33)

### Summary

- We believe that energy suppliers can play a key role in helping our most vulnerable customers receive the support they need to adequately heat their homes.
- The support may come from a supplier led scheme or be government funded, but must provide a solution for all customers. For this to be affordable, Government must now look at a more targeted, effective and sustainable way of supporting customers in fuel poverty, which offers a solution to those customers who are more severely fuel poor.
- Where customers in fuel poverty are better able to help themselves, we call on the Government to use the availability of social price support to encourage customers to take up energy efficiency measures. This must be supported by data-sharing to ensure that support is well-targeted.
- For those customers who are more severely fuel poor, spending more than 20% of income on energy and may have been in fuel poverty for a long period, a holistic package of measures, covering energy efficiency, income levels and support with energy costs, to improve their quality of living will be necessary.
- Work that we are currently undertaking shows that partnership working, including local authorities, local community groups, the third sector and energy suppliers, is essential to ensuring that effective and efficient support reaches the most severely fuel poor.
- It is important to consider how the funds required to provide support to those in fuel poverty will be raised in the future. The broader customer base will see an increase to their energy bills as a result of a number of different Government schemes and levies. We would propose the Government adopt a fairer and more progressive approach to the funding of their low carbon and social obligations. Social price support should be effective for those that receive it and fair for those who fund it.

## **Introduction**

1. The latest Government fuel poverty statistics showed that there were 4million people in fuel poverty in the UK in 2007, an increase of 2million since 2003 and, within this group, there is a wide variation in the severity of fuel poverty.
2. Fuel poverty is a complex issue arising from a simple problem - the inability to adequately heat one's home. There are three main drivers of fuel poverty - inadequate household income, low energy efficiency levels and high energy (unit) costs - and it is useful also to consider a fourth, whether the property is the appropriate size for the number of people living in it. This complexity means that there cannot be a 'one size fits all' solution to tackling fuel poverty.
3. It is important to consider the value of working closely with customers in severe fuel poverty and providing a holistic package of measures, rather than merely short term financial support. For example, benefit entitlement checks could provide additional support in the region of £1000<sup>1</sup> per annum, energy efficiency improvements could see a reduction of £360<sup>2</sup> on the average energy bill, whereas financial support for vulnerable customers may be less than £150<sup>3</sup>.
4. Work that we are currently undertaking shows that partnership working, including with local authorities, local community groups, the third sector and energy suppliers, is essential to ensuring that effective and efficient support reaches the most severely fuel poor.
5. It is also important to consider how the funds required to provide this level of support to those in fuel poverty will be raised in the future. The broader customer base will see an increase to their energy bills as a result of a Government levy for a mandatory social price support scheme. It is important that this is levied in a way that is fair and transparent.
6. As we expect wholesale energy prices to continue to rise in the long term, resulting in more customers being categorised as fuel poor, it is vital that the Government now looks at a more targeted, effective and sustainable way of supporting customers in fuel poverty.

## **Supporting our most vulnerable customers**

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<sup>1</sup>In 2008/9 we conducted 1890 benefit entitlement checks, of which 1226 (65%) were found to be eligible for additional benefits. The average annual increase per successful check was £1637.

<sup>2</sup> On average in 2008/9, each household receiving Warm Front assistance had the potential to save £362.23 in energy running costs every year. Warm Front scheme annual report 2008/09.

<sup>3</sup> The average saving per customer account for social tariffs was £130 in March 2009. Monitoring suppliers' social programmes 2008-09, Ofgem. Customers eligible for the Government's Energy Rebate Scheme will receive a rebate of £80.

7. We are committed to helping our most vulnerable customers who may be in fuel poverty and we offer a range of sustainable measures including energy efficiency advice and measures, benefits entitlement checks, and discounted tariffs. In 2008/9, we increased our spend on social assistance to £20.1M and our expenditure per customer account on our social programme was the second highest of the main energy suppliers.<sup>4</sup>

8. Our key beliefs are that:

- the most effective and sustainable way of tackling fuel poverty is through improving the energy efficiency of housing; resources should be focused on these measures;
- effective targeting is needed to ensure that support is focused on the severe fuel poor.

9. We develop these themes further below.

### **Progress against Government targets**

10. Government has a variety of targets relating to fuel poverty:

- a. To eradicate fuel poverty by 2016 as far as reasonably practicable<sup>5</sup>;
- b. To improve homes, e.g. through CERT Priority Group, CESP, WarmFront and Decent Homes;
- c. To increase spend e.g. by suppliers on social programmes.

11. The targets for delivery (b and c) are being achieved. Suppliers, as the principal delivery agent, are due to increase activity between 2008 and 2012 from £600M/y<sup>6</sup> to over £1bn/y.<sup>7</sup> The question is not over how much is being done, but whether activity is as well targeted as it could be at the fuel poor, in particular on the most severely fuel poor.

12. This uncertainty in part arises from the lack of clarity as to what the first target really means. It seems clear that the resources are not available to fully fund the housing improvements necessary to eradicate fuel poverty but Government has to decide what it perceives as reasonably practicable in a strategy to eradicate fuel poverty. The strategy must therefore recognise different customer circumstances and be clear on what is reasonably practicable for each segment. For instance, the difference between owner occupiers and tenants, between pensioners and those more able to choose where to live, between those where higher than average energy need is the principal factor, and those where it is lower income. Above all, it is important to recognise differences in customers' ability to help themselves and so ensure that support reaches the most vulnerable.

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<sup>4</sup> Ofgem "Monitoring suppliers' social programmes 2008/09", 18 August 2009.

<sup>5</sup> In England, Scotland and Northern Ireland, 2018 in Wales. Also to eradicate fuel poverty in vulnerable households by 2010 (England, Wales, Northern Ireland).

<sup>6</sup> Priority Group for CERT £500M; Suppliers' Voluntary Agreement £100M

<sup>7</sup> See footnotes 9 - 11.

**The definition of households in fuel poverty commonly used - i.e. those households where more than 10% of income has to be spent on fuel for adequate heating**

13. The simple fuel poverty definition obscures the severity of fuel poverty for some households, who may need to spend more than 20% of their income on heating their home and may have been fuel poor for some time. This group of customers is in greatest need of financial support, to alleviate fuel poverty now and to protect them from the future cost of measures to support investment in a low carbon economy.
14. Furthermore, it is important that problems with the current fuel poverty indicator are recognised. In the fuel poverty indicator calculation, an additional £100 has a value of £100 if classified as a negative fuel cost but of only £10 if classified as an increase in income. For the average low income customer, a rise in fuel costs may be covered by indexation of benefits (albeit with a lag), but still show as an increase in the numbers in fuel poverty. For the severely fuel poor customer, the same rise will be much more serious, and yet not show in any current measure.
15. It is not necessary to change the definition, but these limitations should inform the debate on what is reasonably practicable for each segment.

**The coherence of the Government's initiatives on energy efficiency**

16. The most effective and sustainable way of tackling fuel poverty is through improving the energy efficiency of housing which allows either consumers to reduce their fuel costs or to achieve a higher level of warmth at the same cost. The potential savings are greater than is likely to be affordable in price support, and are sustained<sup>8</sup>. Resources will be targeted at those in lower standard housing and hence most vulnerable to rising prices.
17. The larger part of measures funded, or about to be funded, through energy bills are for investment in measures which will reduce household energy costs:

Initiative	Dates	Targeting & Scale, 2012	Measures
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<sup>8</sup> To illustrate - consider £300M/y spent in a similar way to Warm Front:

- Based on their 2008/9 performance (Warm Front Annual Report 2008/9 - 233,594 households received assistance, average saving £362.23, budget £395M) almost 200,000 households/y could be helped to save an average of £360/y on their energy bills;
- Over the period 2011 - 2016 (assume £200M in 2011/12, £250M in 2012/13 and £300M/y thereafter - see footnote 7) the number of households helped would be 1M;
- At the end of 2016 - 1M households could be £450/y better off (allowing for a 25% increase in energy prices) - if expenditure was on energy efficiency;
- Social price support would only provide £300/household, and would need to continue indefinitely.

CERT	Apr 2008 - Mar 2011, proposed extension to Dec 2012	Priority Group, on benefits and over 70s £730M/y <sup>9</sup>	Insulation, heating, lighting
CESP	Oct 2009 - Dec 2012	Areas in lowest income decile £96M/y <sup>10</sup>	Whole house, insulation focus
FITs	From Apr 2010	No special provision for low income	Microgeneration
RHI	Planned from Apr 2011	No special provision for low income, but very relevant to off gas grid	Heat Pumps
Energy Bill support scheme	Apr 2011 onwards (voluntary agreement Apr 2008 - Mar 2011)	To be decided. Most effective for Pension Credit recipients through data-sharing. £250M/y <sup>11</sup>	To be decided. Should include energy efficiency, money advice and price support

18. We welcome the strong bias towards sustainable measures within programmes funded from energy bills.

19. However, two<sup>12</sup> additional steps are required to make these programmes more effective at alleviating fuel poverty:

- a. Implementation of low interest loan scheme (e.g. PAYS)<sup>13</sup>, so that access to capital is not a barrier to take-up of measures which are supported by the core initiatives;
- b. Clarity over the eligibility rules for the Energy Bill support scheme (and for Warm Front post April 2011) to ensure that additional support is available for fuel poor households to overcome barriers to take-up of PAYS, e.g. to cover the interest costs on repayments.

20. These steps will also assist the targeting of measures at the most vulnerable customers (see para. 2) by ensuring that an offer is available to any household who seeks assistance. If CESP is successful, the post 2012 Household Energy Management Strategy should include further area based programmes.

**The methods used to target assistance at households which need it most**

21. No one, other than the household itself, has all the information to identify fuel poverty. Any strategy to reach customers, which does not engage them, will be imperfectly targeted, potentially offering insufficient support to the most

<sup>9</sup> Supplier contribution for CERT Extension. Further £294M/y contribution from social housing providers.

<sup>10</sup> Supplier contribution £312M, over 3¼ years

<sup>11</sup> Based on increase from £150M/y in 2010/11 to £300M/y in 2013/14 signalled in PBR.

<sup>12</sup> A third key step - to confirm that an integrated package of support to fuel poor customers, including benefits entitlement checks and money advice, is eligible under the Energy Bill support scheme - should be resolved by a Government amendment to the Bill.

<sup>13</sup> Pay As You Save. Repayments would effectively be secured against the property by including them with the distribution charge, which the supplier would pass on to the customer. The low risk (in principle only that the property was unoccupied) would allow a low interest rate, although for the lowest income customers some additional support would be required.

vulnerable in order to be affordable with wider take-up, or alternatively not reaching some vulnerable customers.

22. Suppliers are working together with the UK Government (the Department for Work and Pensions and the Department of Energy and Climate Change) on a data sharing trial. The Government proposes that, under the Energy Rebate Scheme, a group of Pension Credit recipients<sup>14</sup> will receive a one-off rebate on their electricity bills worth £80.
23. We are committed to this scheme as a trial to assess the role data sharing could play in future fuel poverty plans. If this process is proven to be successful then further data sharing may be appropriate.

### **Social tariffs and plans to put social price support on a statutory footing**

#### *Mandatory Social Price Support*

24. The Energy Bill will give government wide powers to introduce mandatory support schemes. These powers must be used to provide well targeted support with a clear objective. We see the need for three types of support:
- a. Support to a 'kernel group' of elderly customers on low fixed incomes who are less well placed to cope with the cost of levies on energy bills to support investment in a low carbon economy. The support would be an ongoing fixed rebate on their bills;
  - b. As part of a broader fuel poverty strategy aimed at identifying households most in need and incentivising them to take up energy efficiency measures. We outline a potential method in para. 25 below;
  - c. Energy efficiency and other measures as described in para, 10b above.
25. The support schemes should not be used to deliver general ongoing price support which could be delivered more effectively and efficiently by increasing state benefits.
26. Whilst a high level of financial support will be essential for some customers, the majority of owner occupiers may be able to lift themselves out of fuel poverty by reducing the amount spent on energy through improved energy efficiency. In order to encourage the take-up of these tools to eradicate fuel poverty, mandatory social support should be linked to the provision of energy efficiency measures and advice for the Government's "broader group" of eligible customers. Under this model, social support would be provided to customers identified as being in a fuel poverty risk group with the condition that continuing support depended on them working with their supplier or other

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<sup>14</sup> Those aged 70 or over in receipt of the guarantee credit element of Pension Credit only (this does not include those receiving the savings credit element) on a given qualifying date.

nominated party to identify ways of reducing energy spend through improved energy efficiency.



#### *Funding of low carbon and social obligations*

27. Currently, each supplier's contribution, under obligations such as CERT and the voluntary agreement, is calculated according to their number of electricity and gas accounts. This means that the cost is passed on as a "flat tax", i.e. with each customer account paying the same amount.

28. An alternative approach would be to structure obligations based on energy units used – on an amount per unit basis. Higher income households on average have substantially higher usage than lower income households<sup>15</sup> and so would contribute more to funding social support than those with lower incomes.

29. To make this approach even more progressive, the allocation method applied by Ofgem could give a credit to each customer account and increase the weighting to units. This would mean that customers have lower fixed costs, but pay a higher unit price. Under this approach, those in the lowest income decile, with the lowest consumption, would pay a very small amount towards social support. Those in the highest income decile, with the highest consumption, would pay significantly more.

30. A small percentage of households in the lower income deciles are in the higher usage deciles. These are particularly vulnerable to the costs of carbon policies and would be further affected by the introduction of an equalisation mechanism.<sup>16</sup> It is therefore very important that government develops policies to improve the homes of the most severely fuel poor, for instance through more precise targeting of energy efficiency measures through CESP, CERT, Warm Front and the Decent Homes Programme.

#### **Winter fuel payments and cold weather payments**

<sup>15</sup> Centre for Sustainable Energy (2007). Assessing the Social Impacts of a Supplier Obligation – A study for DEFRA.

<sup>16</sup> EUETS, RO, FITs and the proposals for a CCS levy and the RHI are projected to increase average consumer bills by over £200 by 2020 and, as they are recovered in proportion to units, would increase bills for the most severely fuel poor customers, by up to £500. Changing the allocation methodology for CERT, CESP and the energy support scheme would reduce bills for the most low income consumers by up to £100, but could increase those of the most severely fuel poor by a further £150.

31. In contrast to the universal Winter Fuel Payment, Cold Weather Payments are made only to vulnerable households on low incomes and only if the weather is especially severe.
32. E.ON gives additional cold weather payments through our Age Concern product over and above what government offers. In 2008/9 we made payments totalling £3.6m to 160,000 customers.
33. However, neither Winter Fuel Payments nor Cold Weather Payments reflect need, since those in good housing receive the same benefit as those in poor housing. Nor do they provide a sustainable solution to the underlying causes of fuel poverty. Short term solutions must be accompanied by a more long-term sustainable approach.
34. Given the lack of targeting, Winter Fuel Payments should be viewed as an addition to the basic state pension, rather than as part of any fuel poverty strategy. Any review of their effectiveness should be considered as part of the Government's broader pension policy.

#### **Support for households which are not connected to the mains gas grid**

35. Households that are not connected to the mains gas grid are more vulnerable to fuel poverty. Mains gas connection can help to alleviate fuel poverty and so we support initiatives that aim to help improve access for communities to the gas grid.
36. The introduction of Feed-in Tariffs from April 2010 and the Renewable Heat Incentive from April 2011 should help to increase the attractiveness of eligible microgeneration and renewable technologies. Heat pumps are particularly effective for off gas-grid customers and will become increasingly attractive as the grid decarbonises. It is important that a PAYS scheme is available to allow all households access to renewable heat measures<sup>17</sup>, with additional support provided to the most vulnerable through suppliers' Energy Bill support schemes or the post 2011 development of Warm Front.

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<sup>17</sup> It is important to making the RHI accessible to all customers that the loan is low cost; payments must therefore be secured against the property through an arrangement such as PAYS, ideally, for simplicity, with the support provided by the RHI netted off a customer's repayments.