

Ofgem's 5 year strategy 2010-2015

Written response submitted on behalf of the Government's Fuel Poverty Advisory Group for England (FPAG)

FPAG Context

- Fuel Poverty Figures. FPAG estimates some 4 million plus households in England (5 million UK) to be in fuel poverty as at September 2008. This compares with 1.2 million in 2004. Meanwhile, average domestic dual fuel bills (Gas & Electricity) increased from £572 to £1,287 (+125%) between January 2003 and September 2008. Although there has been some recent reduction in energy prices, the long term trend is for them to increase.
- C. 4M in fuel Poverty. Of the estimated 4 million fuel-poor households in England, almost 50% are pensioners and overall some 80% can be categorised as vulnerable.
- Non gas areas. Government figures for 2006 indicate around 2.7m homes in England do not have mains gas – of these, just under 0.6m (21%) were fuel poor and their plight exacerbated by space and water heating costs using kerosene or LPG being respectively 50% and 90% higher than those for mains gas.
- Prepayment meters & Ofgem's probe. 14% of households that use a prepayment meter for either gas, electricity or both are fuel poor (2006 data) – this represents 19% of fuel-poor households. Of households within the lowest income decile, 22% use prepayment. The supplier probe unearthed a number of serious structural market issues which has led to some improvements in tariff equity between different consumer groups. Although a welcome development, FPAG remains of its view that prepayment inequity persists. The differential between an on-line dual fuel Direct Debit payer and a dual fuel prepayment consumer can be £180, rising to £255 per year in the worst case (Ofgem May 2009).
- Standard Credit. 16% of households with a standard credit payment method are fuel poor (2006 data) – this represents 46% of fuel-poor households. Of households within the lowest income decile 44% use standard credit.

Note

The diverse nature of the Group's membership may, on some occasions, prevent unanimity on some of the following points.

Comments

The following comments are, to some degree, interrelated:

1. Affordability and Industry structure

The UK is entering a transformational energy context as it moves to a low carbon economy. The costs and its implication have yet to be explored in any real depth. To this end, Ofgem should seek to initiate a detailed study to model a range of fuel poverty scenarios based on a range of future energy prices. The output to be used to explore:

- **The fuel poverty implications and solutions**
- **Social tariffs**
- **The appropriateness of the competitive model and customer equity**
- **Stimulating new entrants and ESCOs**
- **Micro-generation and the active networks implications**

The Government's recent 'Low Carbon Transition' announcement does not appear to contain a range of energy prices scenarios on which to judge future potential fuel poverty outcomes. The document seems to indicate just one optimistic energy price scenario.

A range of factors, such as security of supply, imported gas, low carbon objectives, power station construction and policy issues etc all have the potential to create uncertainty in the energy markets, drive energy prices higher and, increase the numbers of households in fuel poverty.

Some observers predict climate change policies are set to increase fuel bills by up to 20 per cent with every one per cent increase in prices adding 40,000 to the number of fuel poor (Consumer Focus 2009).

FPAG recognises the long term trend for energy prices will be upwards. It is therefore important for the fuel poverty consequences to be anticipated to enable appropriate remedial steps to be put in place. It is essential that targeted and challenging whole house energy efficiency policies the government is seeking to deploy play a central role in any fuel poverty strategy.

2. The Vulnerable/regressive measures/who pays etc

Ofgem should build on their recent attempts to be more engaged in, and help facilitate, the public policy debate to ensure that the most vulnerable and disadvantaged are protected and also do not subsidise the more astute customer.

The generally poor state of the UK housing stock and its poverty levels will mean that fuel poverty will hit many very hard indeed. Exploration of the potential for Ofgem policies to be explicitly tested against a benchmark of a range of consumers drawn from say those eligible for cold weather payments to determine whether or not they are providing adequate protection for the vulnerable should be undertaken.

With regard to cost and funding of CERT/CESP type initiatives plus the Industries major investment plans, FPAG itself has yet to finally conclude on the important issue of who pays for what:

Ofgem should play a central role in the debate about how these developments should be funded and who pays. At the moment the driving assumption is that the consumer will pay by price increase which inevitably means the poor pay proportionately more.

So, for example, should the public purse carry the cost when:

- the principal beneficiaries are future generations, e.g. new technology development such as wave power?
- the costs to be met are the result of failure of previous generations to pay the real costs, e.g. coal mining subsidence or health impacts?
- if the impact on energy costs is highly and unduly redistributive?
- if the problem being addressed is largely non-energy in cause, e.g. fuel poverty arising from poor housing?

Should energy consumers (or more specifically energy bill payers) carry the cost of:

- their fair share of the costs of energy supply and distribution and maintaining a specified standard of energy 'reliability'
- ensuring that all consumers have equal opportunities to participate from the benefits of competition and energy saving obligations
- the environmental damage caused by their energy use (and/or cost of avoiding the damage)

Finally, and perhaps for the silent majority, who do not endlessly shift suppliers, to pay a 'fair trade' price for their energy year in and year out? It would probably not be the cheapest tariff available but it would be a regulated tariff that reflected a fair cost and limited but reasonable profit?

3. Prepayment tariff differentials

The prepayment tariff differential again be explored by Ofgem and, if required, addressed through price controls.

It is inequitable that the generally poorer consumer should pay more because they use prepayment meters. The differential between on-line dual fuel Direct Debit payers and dual fuel prepayment meter payers is £180, rising to £255 in the worst case.

In view of the smart meter mandate and the potential for some customers having to wait up to 10 years or more for new and lower cost prepayment metering, there is now an overwhelming case and an opportunity for the tariff differential to be addressed through price controls and tariffs levied as if a smart metering regime was already in place.

Ofgem to become a driving influence in radically changing the market by everyone having a pre payment option and the development of alternatives to self disconnection for those facing difficulties in keeping their ppms in credit

4. Energy Services Companies (ESCOs)

OFGEM needs to consider the potential opportunities created by any move to significant numbers of ESCOs post 2012. These may allow energy suppliers and new entrants to offer substantial assistance to the fuel poor through tariffs and physical measures.

5. Smart Meters

The customer implications, plus a new approach to debt management for a smart meter future, should be thoroughly explored by Ofgem. (FPAG) supports the universal facility of 'Pay as you go' energy for all customers.

The following list is intended to act as an indication of what should be explored in advance of the smart meter roll out. For example, peak pricing and the implication for vulnerable customers and the risks of too much unregulated power vested with suppliers and its agents in a remotely controlled supplier/customer relationship:

- Remote disconnect and reconnect of both electricity and gas for non payment – Review the current debt and disconnection process to ensure customers' interests are safeguarded. The ability to transform the debt recovery process and not resort to disconnection at all could be facilitated through smart meters. The opportunities for load limiting and credit management are two new options and could mean no customer is wholly without energy.
- Increasing tariff differentials and vulnerable customers - the potential for time of use tariffs is, to some degree, understood in a smart meter context by some stakeholders. However, there are significant societal implications for vulnerable customers if very high peak prices become the norm and increase energy use and a customer's bill.

- Remote instigation of load limiting for electricity – this new facility, in addition for debt management, could facilitate a totally new approach to residential tariff structures. In Italy and France, for example, a range of kilowatt limits are the norm and reflected in the prices customers pay.
- Remote payments by customers - identity theft and process safeguards – although payments over the internet are common place, they are made in a relatively mature technological environment. The appropriate safeguards that underpin internet transactions by some organisations should be explored in a smart meter context and form part of further input to the impact assessment.
- Remote billing adjustments and data protection - the ability of suppliers to have a further incentive for paperless billing will require additional process safeguards to ensure a customer's billing history retains its integrity. The potential for remote changing of tariffs will now be possible on a very large scale indeed. Ultimately, up to 47 million customer accounts could be affected. The potential for significant and wide scale errors becomes a possibility and again the necessary process safeguards and customer redress need to be explored.
- Remote changes to tariff regimes and unit prices – the comments as above also apply to this issue
- Remote appliance control in a Demand Side Management (DSM) context - the concept of dynamic demand to reduce system peaks is a concept being explored around the world. Significant demand side management is undertaken in England, Wales and Scotland through National Grid. The current range of mechanisms includes Dinorwic pump storage, commercial cold stores, water company diesel generation, supplier load management bids etc. The smart meter context has the potential to change this together with the post 2012 supplier obligation. The full impact on customers must be understood.
- Customers roll out experience and time to deploy - there are implications for customers depending on the market model that eventually is selected for a smart meter deployment. Before a decision is taken it will be important to understand the pros and cons and implications for customers segments and for each of the different market scenarios.
- Customer education and engagement - it is recognised that the enduring engagement of all customers – particularly the fuel poor and vulnerable, in the smart meter and carbon reduction journey is paramount. To this end, it is suggested that sufficient engagement of recognised universities and other appropriate bodies be ensured to map out suitable approaches for low income customer involvement.
- The cost of legacy contracts, stranded assets and their cost recovery – the decision to take smart metering forward will require the resolution of cost recovery mechanisms for dealing with the above issues. Whilst regulatory precedent exists for the recovery of 1998 costs, there needs to be greater understanding of the quantum and mechanism necessary to ensure an equitable outcome.

6. Easy ways to pay for energy efficiency measures and appliances

Prepayment meters and Electricity/Gas boards' quarterly accounts, prior to privatisation, facilitated a major means by which many customers were able to purchase appliances over time. Their modern day equivalents in a smart meter context should be explored to provide access to credit.

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