

Response to Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy - Discussion paper



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Introduction

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes. EAS works with both the Scottish and the UK Governments on energy efficiency programme design and implementation.

EAS welcomes the opportunity to respond to Energy Affordability: helping develop Ofgem's Vulnerable Consumers' Strategy - Discussion paper

Fuel Poverty in Scotland

The Scottish Government is required by the Housing (Scotland) Act 2001 to end fuel poverty, as far as is practicable, by 2016 and plans to do this are set out in the Scottish Fuel Poverty Statement. The number of Scottish households living in fuel poverty dropped from 756,000 (35.6%) in 1996 to 293,000 (13.4%) in 2002. Half the reduction was due to increases in household income, 35% to reduced fuel prices and 15% to improve energy efficiency of housing¹. The most recent figures² from the Scottish House Condition Survey Key Findings Report show that there were 770,000 households living in fuel poverty in Scotland in 2009, representing 34% of total households.

According to figures produced by the Scottish Government³ early in 2008, for every 5% rise in fuel prices an estimated 40,000 more households would go into fuel poverty. Based on these figures EAS estimates that there are currently 900,000 households, more than four in ten, in fuel poverty in Scotland. This significant increase in fuel poverty is widely accepted to be due to the dramatic increases in domestic fuel prices and EAS is very concerned about the impact on vulnerable customers.

Since Ofgem's Social Action Strategy was last reviewed (2005), the number of fuel poor and vulnerable consumers has increased significantly – up from 22% to more than 35% in 2012⁴. Whilst there is nothing fundamentally wrong with the current themes, EAS supports Ofgem's intention to review and update their support strategy for vulnerable consumers.

Question 1: What should be the key factors or actions that we should consider incorporating in our Vulnerable Consumers' Strategy? How should the themes of our strategy be changed?

There is first and foremost a fundamental need to provide better-targeted support to facilitate improvements in consumer understanding and engagement. Some of Ofgem's activities over the past couple of years have achieved positive results – the amount and type of information included in fuel bills and annual statements, for example. EAS believes that consumer empowerment (and potentially consumer engagement) is key, and that Ofgem must focus its actions on improving consumer understanding.

¹ Fuel Poverty in Scotland: Further Analysis of the Scottish Housing Condition survey 2002

² Revised Scottish House Condition Scotland Key Findings Report 2009

³ Estimate of Fuel Poverty Households in Scotland: Scottish House Condition Survey March 2009

⁴ Based on SHCS 2010 fuel poverty figures for Scotland, and taking into account impact of price changes since July 2010, EAS estimates that almost four in ten Scottish households are now fuel poor.

Question 2: What can Ofgem do differently to help address affordability concerns?

EAS appreciates some of Ofgem's actions to improve consumer awareness and understanding. However, there are anomalies that must be addressed if Ofgem is to remain credible. Recent examples include:

- Ofgem is keen to improve switching rates/access to switching through tariff simplification, awareness-raising, etc – but then voices its support for initiatives such as collective switching, seeing it as a useful way for vulnerable consumers to access the competitive retail market. This comes across as contradictory, since collective switching is likely to introduce a wider range of tariffs that will only be available to a select few consumers
- Ofgem sees smart metering as an opportunity to introduce greater innovation in tariff structures, including time of use tariffs – at the same time as it is pushing for tariff simplification/a reduction in the number of tariffs. This also seems contradictory

EAS fully supports and echoes Ofgem's belief that the cost of environmental and social initiatives should not be disproportionately borne by vulnerable consumers. Ofgem should continue to seek implementation of a more progressive approach.

Question 3: We welcome views on how Ofgem can help stakeholders with their contribution

Ofgem intends to take proactive steps to protect and promote the interests of consumers in relation to the mandated roll-out of smart meters, and with this approach in mind, has already made changes to some licence conditions. EAS believes that for smart metering to offer any benefits to consumers, there must be a structured support mechanism in place to teach people how to make effective use of their smart meters – handing out leaflets during the installation process is simply not enough. Ofgem states that it is 'continuing to engage constructively and actively with Government in a regulatory capacity to help ensure that the roll-out of smart metering delivers benefits to all consumers, including those in vulnerable positions'. It further states that one of its roles during the roll-out of smart metering is 'to take proactive steps to protect and promote the interests of consumers'. However, and despite numerous opportunities to do so via consultation responses, etc., to date Ofgem has not given any indication of what the nature of the support for vulnerable consumers should or will be. Ofgem must use its influence to ensure that the appropriate support programme is in place.

Financial support to consumers likely to be fuel poor is now delivered through the mandatory Warm Homes Discount scheme. Under this scheme, suppliers are required to provide support to fuel poor consumers over the four years from April 2011. EAS believes that the distribution of fixed energy bill discounts should be reviewed to determine whether the current identification proxy is appropriate and that support is being distributed to the most vulnerable consumers. EAS also believes that the guidance for the Industry Initiatives strand of the Warm Home Discount should be reviewed – there is a real danger that the prescriptive nature of the current guidelines stifles innovation.