

Social policy for energy – a fair deal for all consumers

Jonathan Stearn
Consumer Focus

Fuel prices –the consumer’s view

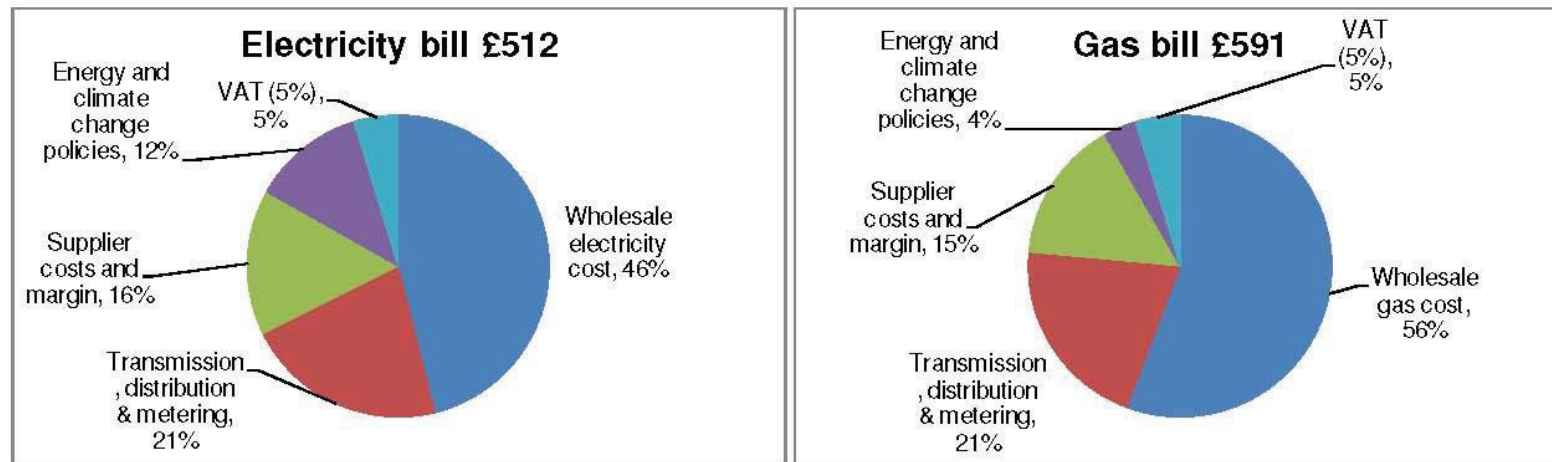
“Gas and electricity companies are all the same -they put up the prices and they never bring them down. It’s the consumer who gets it every single time... Someone at the end of the line is just laughing at us. We don’t have any choice. We have to use gas or electricity. Anything they know we really need they charge what they like.”



Pensioner in Shropshire

Current make up of energy bills

Chart 1: Estimated breakdown of an average annual domestic gas and electricity bill in 2010⁵



Source: DECC 2010
Figures in real 2009 prices

Fuel prices – on the up

Sun CITY
THE SUN'S BIGGEST
12.55 (10.55)

GAS STINK

- Friday: Prices soar by
- Yesterday: C...

Centrica's £2.2bn profit is enough to stop price hike

By Simon Hoggart

Centrica's £2.2bn profit is enough to stop price hike

- Operating profit for the year up from £1.5bn
- 240,000 new customers for the company's energy
- General and all product lines expected to be profitable
- US electricity contracts to be sold for the first time

EDF price freeze puts a shiver through the Big Six

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HEATING HIKE HIT BY 9% AS PRICE RISE

9.4% GAS RISE

Millions hit after firm unveils £1.3bn profits

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Gas giant 9.4% price rise shows

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Company	Price
British Gas	£11.25
EDF Energy	£11.25
Scottish & Southern Energy	£11.25
SSE	£11.25
Unicom	£11.25
Yorkshire Dales	£11.25

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1) Fuel prices – the price consumers pay

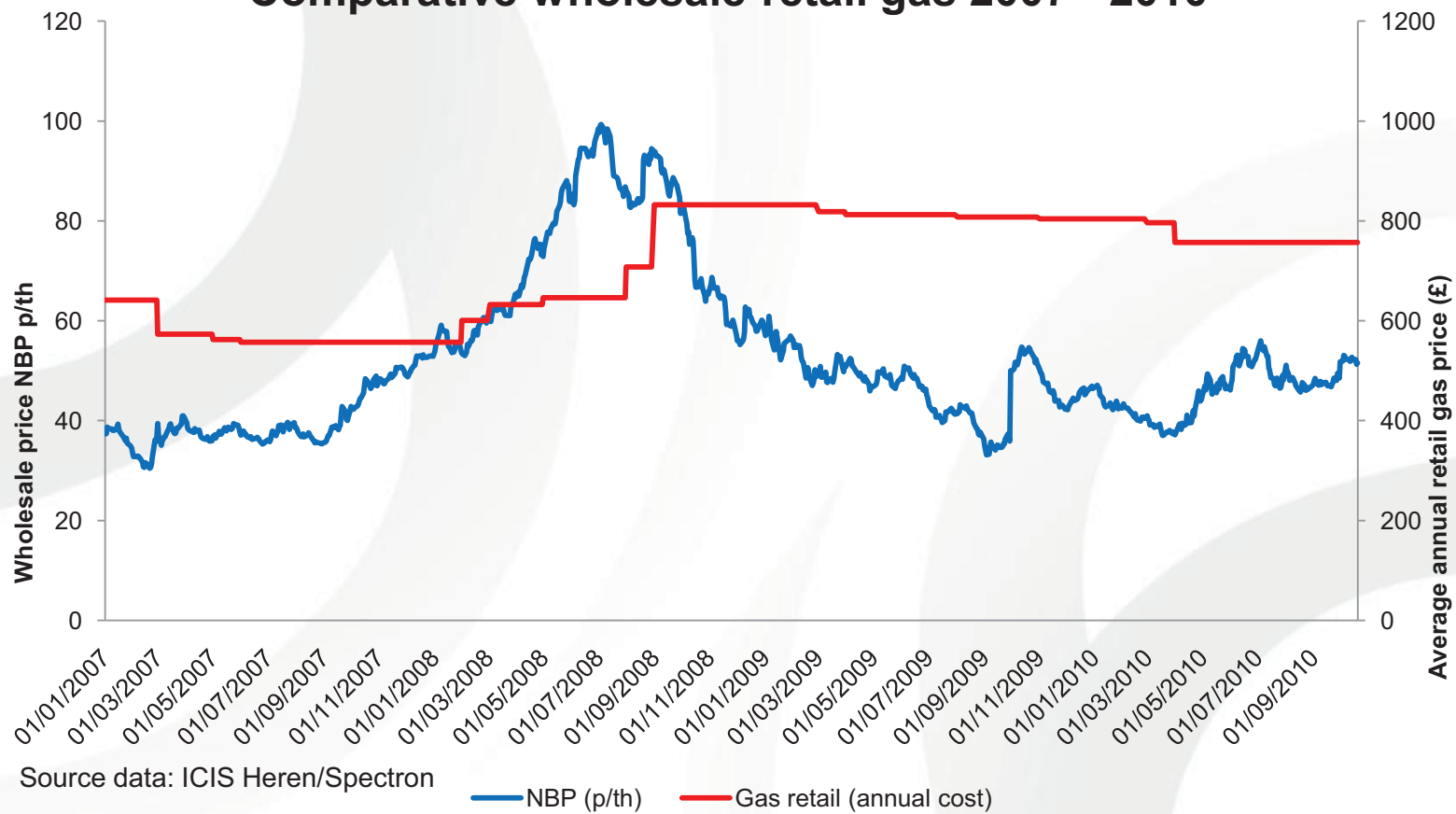
- Two of the key elements that make up the price people pay are:
 - A - The market place – are retail price increases fair?
 - B - Paying for the decaying energy infrastructure and climate change policies.

1A) Fuel prices – up like a rocket down like a feather

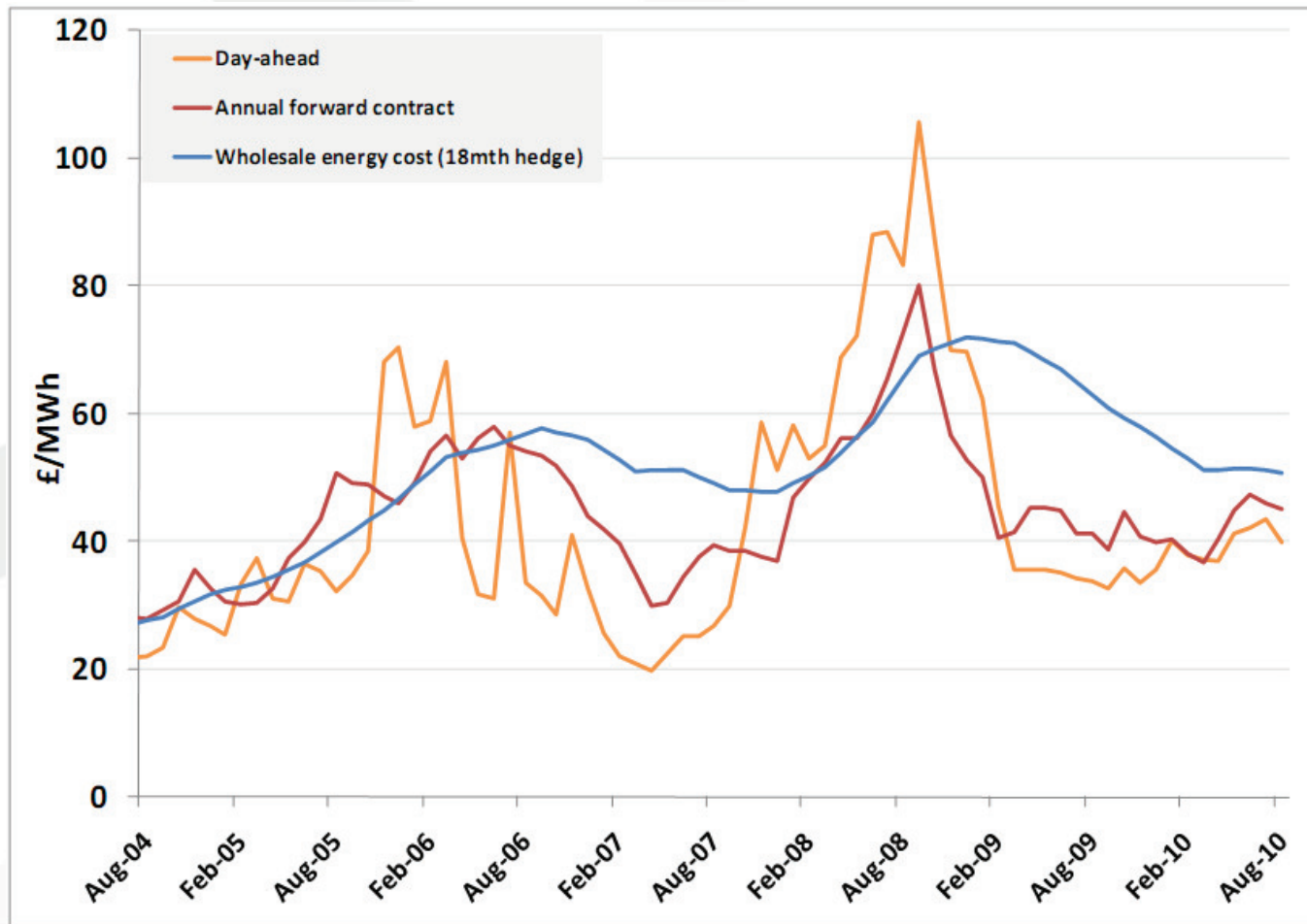
- Always very difficult for consumer organisations to get detailed evidence to challenge the price rises.
- But time lags between wholesale and retail price movements – prices going up like a rocket and down like a feather – can lead to charges of profiteering.

1 A) Wholesale retail price discrepancy

Comparative wholesale-retail gas 2007 - 2010



1 A) But the hedging strategy?



Source: Ofgem

1A) Fuel prices – consumers in the market place

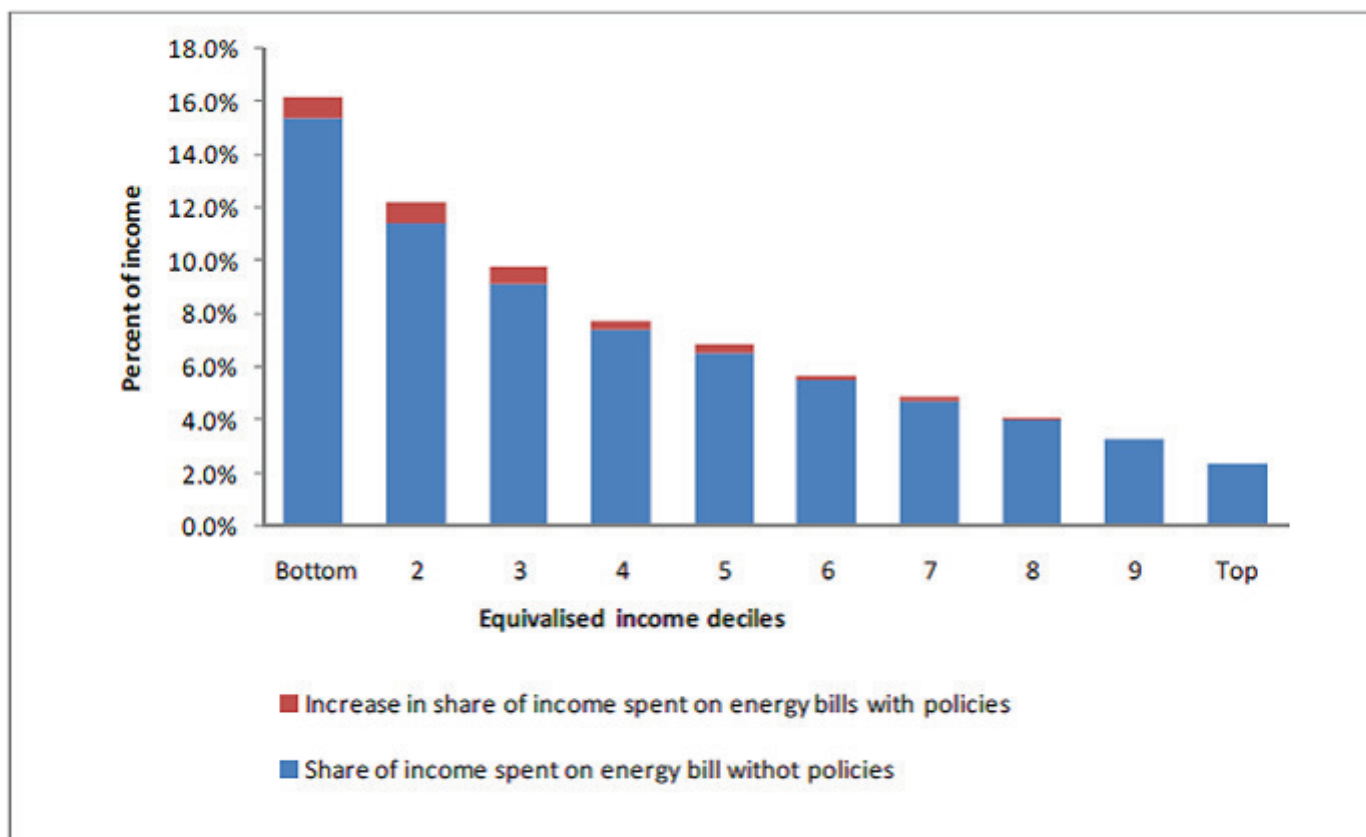
- During 2009, 17% of all gas customers surveyed and 18% of all electricity customers surveyed switched their supplier.
- This compares to 20% and 19% of gas and electricity customers, respectively, during 2008. More vulnerable customers such as those aged 65+ and those in socio-economic group E continue to lag behind others in terms of switching rates.
- But 40 per cent end up paying more

1 B) Fuel prices – climate change and infrastructure

- Paying for the decaying energy infrastructure: needs up to £150 bn of investment by 2020
- Costs of meeting the UK government's climate change policies to cut greenhouse gas emissions by 34% by 2020 - add £125 to domestic bills
- DECC: “A greater burden of the increase in bills falls on lower income households” (July 10)

1 B) Fuel prices – looking into the future is the charging fair?

Energy bill 2020 with climate change policies



2) Why the poor pay more – the poverty premium

The third element is the poverty premium:

- Cheapest deals are on line and direct debit
- Barriers for low income consumers:
 - No internet access and/or
 - Unbanked or unable to use direct debit (fear of overdraft fees and charges)
- Attraction
 - Prepayment meters/quarterly bills – easier to budget but cost more

2) Fuel prices – the best deals

Average medium dual fuel energy costs –

Online direct debit	£946	per year
Direct debit	£1097	+ £151
Pre pay	£1,177	+ £231
Quarterly pay	£1,195	+ £249

2) Why the poor pay more for energy

Payment	Gas	Electricity
Method	2010 In fuel poverty	2010 In fuel poverty
Direct debit online	? %	? %
Direct debit	12.6%	13.6%
Standard credit	22.9%	24.6%
Pre - pay	24.6%	24.8%

1) Fuel prices – the poor pay more

“I go and get my gas and leccie on a Monday. If I need bread and milk I need to know I’ve got the money. If the money came out of my [bank] account I wouldn’t have it. It’s day by day. I hate Thursday, Friday, Saturday and Sundays more than anything else. I have no money till Monday. I can have no gas on Saturday and Sunday. Someone said: ‘You are paying for the meter, not just the gas and leccie?’”



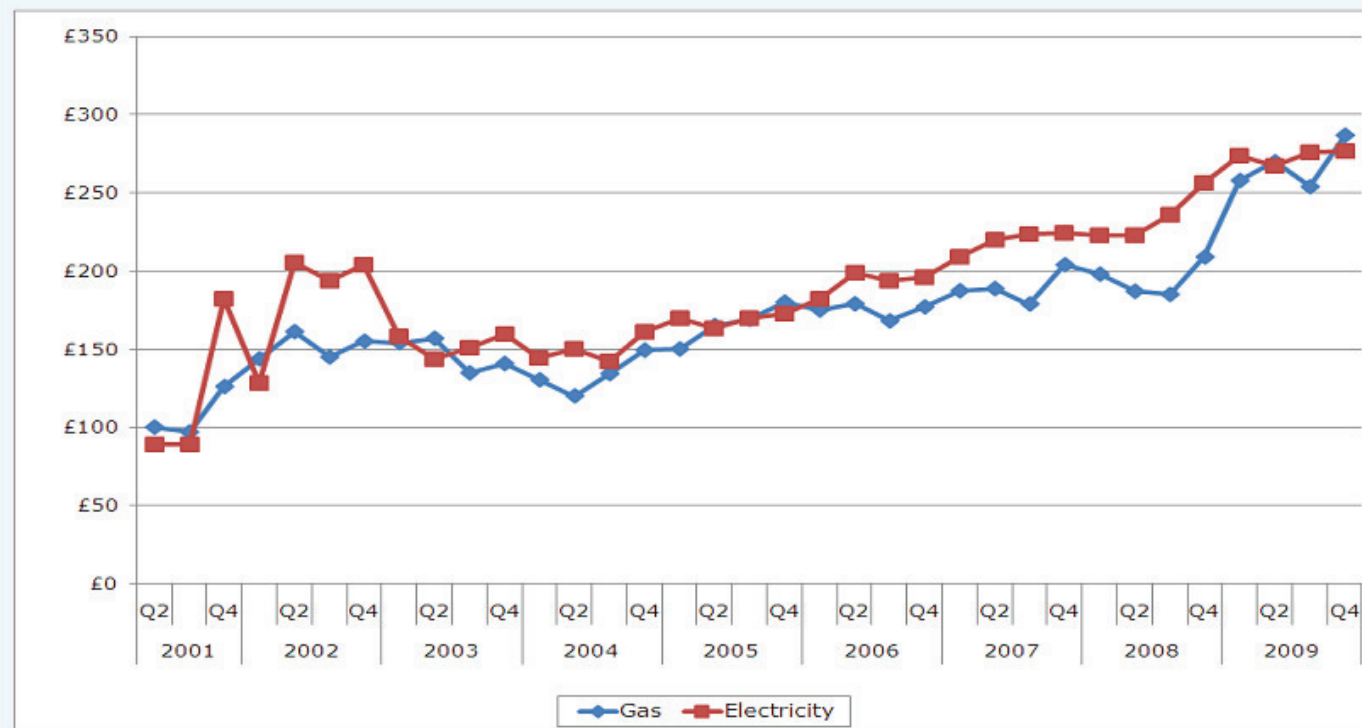
Lone parent Liverpool

2) Debt and disconnection

- Debt – has shown some positive aspects.
- At the end of Q2 2010, the number of customers repaying an electricity debt had decreased by 13% to **1 million** compared to the same quarter last year and the number of customers repaying a gas debt had decreased by 7% to **0.9 million**.
- But

2) Debt and disconnection – levels of debt

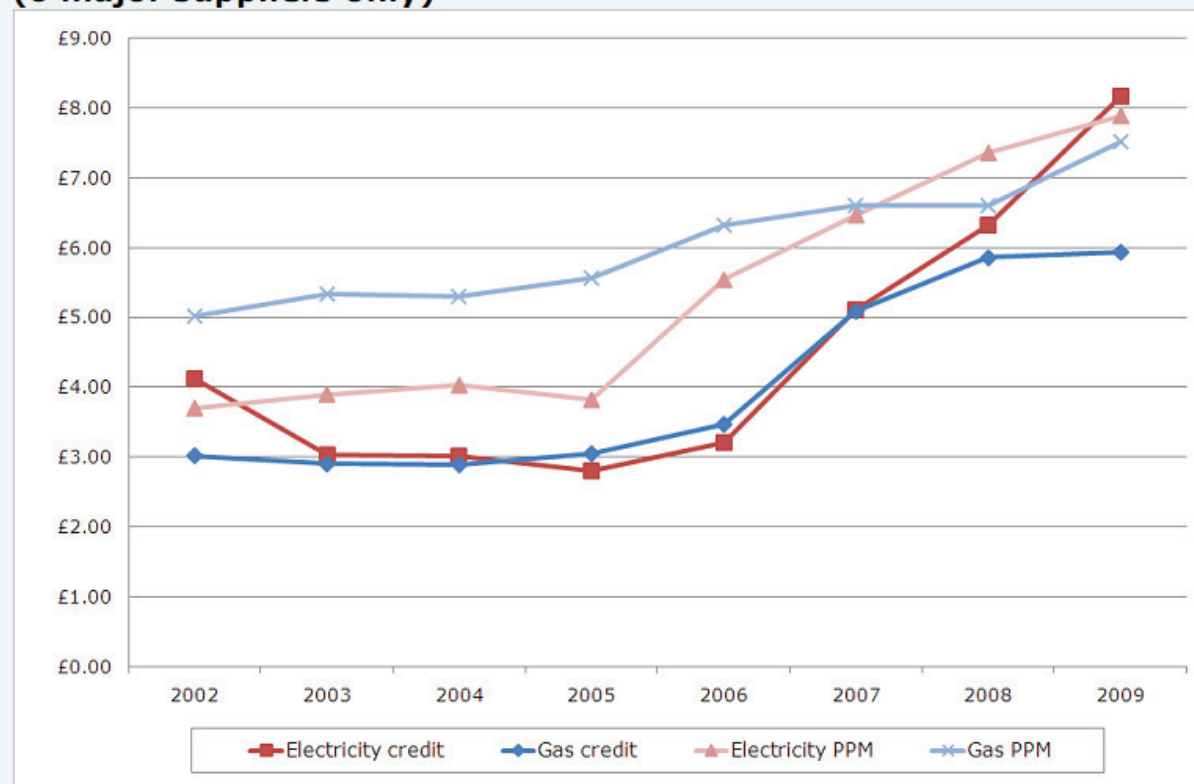
Figure 2: Average level of customer debt over time



Source: Ofgem, supplier data

2) Debt and disconnection – repay rates

Figure 5: Average electricity repayment rates for credit and PPM customers (6 major suppliers only)



Source: Ofgem, supplier data

2) Debt and disconnection - pre pay meters

- Suppliers are prohibited from disconnecting households during winter (October-March) where the customer is a pensioner and lives alone or only lives with other pensioners or those under 18. Suppliers must also take all reasonable steps to avoid disconnecting in winter households where the occupants include someone who is of pensionable age, disabled or chronically ill.

2) Debt and disconnection pre pay meters – the Safety Net

Following the death of pensioners Mr and Mrs Bates in 2003 the energy suppliers developed their own additional 'Safety Net' procedures. The key element is the commitment made by energy suppliers to never knowingly disconnect a vulnerable customer at any time of the year – and adopt procedures to ensure that vulnerable customers are offered the help appropriate to their needs.

2) Debt and disconnection - down

In the second quarter of 2010, 1,105 gas and electricity customers were disconnected – which is down on 2009. But one company accounted for over half – 610, of those disconnections

2) Debt and disconnection - pre pay meters

And ...

One thousand pre payment meters are installed for debt every day

2) Fuel prices – price support for low income households

- From April 2011, energy suppliers will provide greater help with the financial costs of energy bills to the most vulnerable fuel poor households, through a Social Price Support
- Total support of £250 million in 11/12 rising to £310 million in 14/15. Priority groups likely to be:
 - low income pensioners (mandated)
 - other priority
 - legacy groups from previous schemes
 - other

3) Energy efficiency and the fuel poor

Some positive outcomes:

- **Warm Front**
 - assisted over 2m households
 - installs or repairs a heating system every minute of every day
- **Carbon Emissions Reduction Target** – helped get energy efficiency measures into homes:
 - Almost two-thirds of cavity walls in UK filled
 - One third of lofts insulated to at least 150mm

3) Energy efficiency and the fuel poor

But ...

- **CERT** does not have targets for improving energy efficiency of homes

Consumer Focus research - *Raising the SAP* – found bringing homes up to the energy efficiency of a home built today could take 83 % of households out of fuel poverty

- Distributed 224,128,884 compact fluorescent lamps (CFLs)
- **CERT** and **Warm Front** = 25 % of funding needed to meet target to end fuel poverty by 2016

3) Energy efficiency, the fuel poor and the future

CERT developments:

- Higher carbon savings target
 - Two thirds of the increase in target delivered through professionally installed measures
 - No more compact fluorescent lamps (CFLs)
 - Super CERT – those eligible for Cold Weather Payments? But only 15 % of the priority group
- = Paving way for the *Green Deal* when *CERT* will become the Energy Company Obligation

3) Energy efficiency, the fuel poor and the future

Warm Front cut by one third in the October 2010

Comprehensive Spending Review:

- £350 million in the current year
 - £110 million in 2011-2012
 - £100 million 2012 – 2013
 - £0 million 2013 - 2014
- = Paving way for the *Green Deal*

3) Energy efficiency – making the *Green Deal* work for the fuel poor

Could work like this

