

TACKLING FUEL POVERTY

Overview

An estimated 4.5m households are now in fuel poverty, according to Ofgem. As wholesale prices of both oil and gas continue to soar, it is almost inevitable that more price hikes for consumers are on the way. In 2001, the Government pledged to eradicate fuel poverty by 2010, yet it has in fact increased,¹ leaving the Government's target in tatters and millions facing a fuel price crisis.

The Liberal Democrats are launching a fuel poverty package to tackle this crisis. Its key elements are:

- Making energy companies invest £500m a year into a rolling programme to make sure homes are properly insulated
- Requiring energy companies to roll out social tariffs to over two million vulnerable customers
- Installing smart meters, which display consumption costs, rather than conventional meters

Financing the package: the Emissions Trading Scheme windfall

We would place a duty on the energy companies to carry out these measures. However, it would be unacceptable if they simply increased prices to other customers to pay for these improvements. Therefore, we would require them to pay for the measures from the estimated £9 billion windfall that they are receiving from the EU Emissions Trading Scheme (ETS). Ofgem, which has also called for it to be spent on measures to tackle fuel poverty, has estimated that this figure could be even higher. We would lay a requirement on Ofgem to ensure that the energy companies fulfilled this duty.

During phase 2 of the Emissions Trading Scheme (ETS) the vast majority of permits to produce carbon dioxide (CO₂) are being given away free. However although these permits are being given away, because they restrict the amount of CO₂ an energy company can produce, the permits themselves have an intrinsic value. This is because in a liberal competitive market a company can choose not to produce energy themselves and instead sell their permit to a rival company which gives them the right to produce additional CO₂. Industry wide because there is now an opportunity cost in choosing to produce energy rather than simply selling on ETS permits, the overall price of energy will increase. Since the energy companies were originally given ETS permits for free these price increases take the form of the windfall profit.

As companies generating fossil fuel energy have dramatically benefited from the giving away of ETS permits increasing their profits not because of market success but rather a Government giveaway, Liberal Democrats believe it is

¹ [UK Fuel Poverty Strategy November 2001](#)

fair at this time to place certain requirements on the energy companies to help tackle the rising problems of fuel poverty.

1. Better prices for vulnerable customers

The Liberal Democrats believe that, in order to combat fuel poverty, the most vulnerable customers should be entitled to the best rate an energy company offers. We would lay a new duty on the gas and electricity companies to do this. This could save people up to £142 on their bills every year.

Five million often vulnerable people use prepayment tariffs to pay for their electricity and gas. A vulnerable household is defined as including people who are elderly, disabled and chronically sick, or with young children.

In 2007² the average annual domestic standard electricity bill³ for someone paying by direct debit was £349. For someone with a pre-payment meter it was £401; a difference of £52. The average annual domestic gas bill⁴ for someone paying by direct debit was £497. If they paid with a pre-payment meter, their gas cost an average of £589; a difference of £92.

This means that someone paying for their gas and electricity on a pre-payment meter could be paying £142 more than they might be paying on direct debit.

About a quarter of fuel poor consumers are on pre-payment meters for their electricity and gas supplies.⁵ A household is said to be in fuel poverty if it needs to spend more than 10% of its income on fuel to maintain a satisfactory heating regime (usually 21 degrees for the main living area, and 18 degrees for other occupied rooms).

British Gas is already in the process of rolling out a social tariff to 750,000 of its most vulnerable customers at a cost of £90m. As a first stage the Liberal Democrats propose requiring energy companies to roll out social tariffs to 2,250,000 vulnerable energy customers at a cost of £275m per annum. With a longer term objective of requiring the use of social tariffs for all five million prepayment customers at a cost of around £600m per annum.

2. Improving home energy efficiency

According to a recent LGA report '*switch off, switched on*', at least 12 million houses are currently not adequately insulated, costing households around £200 per year in higher energy bills⁶. The LGA has calculated that the cost of

² BERR Quarterly Energy Prices, June 2008: <http://www.berr.gov.uk/files/file46669.pdf>

³ <http://stats.berr.gov.uk/energystats/qep221.xls>, Table 2.2.1 (ST) – UK figure

⁴ <http://stats.berr.gov.uk/energystats/qep231.xls>, Table 2.3.1- GB figure

⁵ "Proportionality of social tariffs and rebates", Paper for Energywatch by Cornwall Energy, January 2008, table 2.1.

⁶ British Gas

adequately insulating all walls and lofts will cost around £5bn. They have proposed that through scaling up the Carbon Emissions Reduction Target (CERT) the Government should aim to ensure all houses were adequately insulated through a 10 year programme.

The Liberal Democrats would roll out a massive home insulation programme, neighbourhood by neighbourhood. Each household would be assessed for its insulation and energy efficiency needs. This would include providing low energy bulbs, loft insulation and other efficiency measures free to vulnerable households and at a discount for everyone else.

Kirklees council, where a quarter of the population is affected by fuel poverty, is already rolling out a similar scheme with great success. It will cost them £21 million over three years.⁷

Like the LGA the Lib Dems believe that these costs should be met by energy producers who have richly benefited from the EU Emissions Trading Scheme windfall (see above). By compelling energy producers industry wide to invest £500m per year into free home insulation in a rolling program, we will be able to not only reduce fuel poverty but also reduce household carbon emissions by seven million tonnes annually (20%).

3. Smart Meters

Smart meters, capable of displaying consumption costs can help in delivering carbon and fuel poverty targets through reducing energy usage. Evidence from Energywatch suggests smarter meters can reduce energy use by between 3% and 15% through changes in behaviour – a 5% reduction translates into around a £35 saving for the average customer. Moreover, smart meters capable of being read remotely have a significant and positive impact on the energy market by helping to ensure customers avoid debt and other detriments, caused by poor billing practices. Meters are currently replaced at around the rate of 1.5 million per year at a cost to industry of £800m. Installing smart rather than conventional meters as the Liberal Democrats propose would increase industry costs by a little over £80m⁸. Not only would this measure help alleviate fuel poverty but it would also lead to a 1,250 GWh additional power saving each year – the equivalent amount of energy a conventional gas turbine station produces in a year.

⁷ “switch off, switched on” report, LGA, p.5

⁸ Energywatch, Get Smart, bring meters into the 21st Century