

# Sustainability Committee

SC(3)-07-08 (p1) Annex A

## Paper from energywatch Wales on fuel poverty in Wales

### Purpose

The Sustainability Committee is looking into Fuel Poverty in Wales. The Committee is deeply concerned as to the impact of increasing fuel prices on Welsh customers and on efforts to tackle fuel poverty. It is particularly keen to hear about the energywatch research findings on electricity prices in Wales. energywatch has been invited to present its findings at the meeting, and to submit a paper in advance of that meeting, to be held on 10 April 2008.

### What is fuel poverty?

Fuel poverty arises when three factors - poorly insulated energy inefficient dwellings with sub-optimal heating systems, low disposable household income and the price of fuel - conspire to put thermal comfort beyond the reach of the household affected.

The UK Fuel Poverty Strategy classifies households as fuel poor if they would need to spend in excess of 10% of household income to maintain a satisfactory heating regime. (A satisfactory heating regime is defined as 21°C in the living room and 18°C in other occupied rooms, as recommended by the World Health Organisation) For some fuel poor households the cost of warmth can rise to 20, 30 or even 40% of income. For many low-income households, spending 10% of their income on heating remains an aspiration.

The lived reality of fuel poverty is cold, damp homes and the human manifestation of fuel poverty is respiratory illness, depression and heart disease, increased risk of strokes and other cold-related ill health; all of which contribute to the UK's high rate of excess winter deaths.

### 1. Impact of increasing fuel prices on Welsh customers

Since January 2003 average national domestic electricity bills have gone up by 69% and gas bills by 108%. In Wales we have seen an average increase of 63% for electricity in North Wales, 56% for electricity in South Wales and 101% for gas.

1.1 In the Welsh Assembly Government's 'Fuel Poverty in Wales, 2004' report the levels of fuel poverty were an estimated 134,000 in 2004. At the same time the WAG also published the 'Evaluating the Impact of Energy Price Rises on Fuel Poverty' paper which assumed that for every 10% rise in fuel prices the proportion of households in fuel poverty would increase by 48,000. Using this assumption, the estimated levels of the number of households in fuel poverty in 2006 were 240,000.

1.2 Since the beginning of 2008 all the major energy suppliers have increased their prices by an average 15%, this has exacerbated the problems here in Wales. energywatch believes that the latest round of price increases has increased the number of households in fuel poverty to around 4.5 million nationally, a rise of around 500,000. If this increase was proportioned for Wales it would increase the number of Welsh fuel poor households by 12.5% bringing the latest estimate to 270,000.

1.3 Currently the average bill for both fuels in North Wales is £965 for Direct Debit customers, £1050 for Standard Credit customers and £1100 for Prepayment meter customers. In South Wales the average bill for both fuels is £988 for Direct Debit customers, £1074 for Standard Credit customers and £1126 for Prepayment meter customers. Once again the hardest hit by the price increases are those less able to afford them, Prepayment meter customers.

### 2. Impact energy prices are having on tackling fuel poverty

Two factors determine the fuel poverty status of a household; the amount of income received by the household and the amount of this income that is spent on fuel. The fuel expenditure is itself influenced by various factors such as the energy efficiency of the home, the price of the fuel used and whether the home is under-occupied.

2.1 The customers worst affected by rising energy prices are Prepayment meter customers. In Wales we have an estimated 222,000 electricity and 140,000 gas consumers who pay for their energy through a prepayment meter. They cannot easily use online price comparison services to switch supplier so invariably are unable to take advantage of cheaper prices or indeed minimise the effect that the price increases have on their day to day lives.

2.2 Prepayment meters (PPMs) present the most vivid example of punitive and discriminatory pricing policies in the energy market. There is a strong correlation between the use of prepayment meters and low-income; and when fuel poverty is measured on the 'basic income' definition Government data shows that around a third of the fuel poor pay for their electricity through a PPM. (Government reports fuel poverty figures in two ways: the first includes housing supplements such as Housing Benefit and Income Support for Mortgage Interest as income and is referred to as the "full income" definition, while the second excludes housing supplements from discretionary spend and is known as the "basic income definition") This consumer segment live on a budget, are forced to budget their energy use, yet are left paying the market's premium prices. Where a consumer is using a PPM for both gas and electricity they will on average across GB pay £215 more per annum than a consumer using direct debit, online only tariffs. In Wales that difference is £219.

2.3 The accelerating trend of suppliers installing PPMs to recover debt means that close to one million PPM users (c. 1 in 6) are effectively chained to both their current supplier and this punitive payment method. On average 1,000 prepayment meters per day were installed across GB to recover debt in 2007.

2.4 The Welsh Assembly Government targets are:-

To eradicate fuel poverty among vulnerable households by 2010

To eradicate fuel poverty among all households by 2018

2.5 Currently the following programmes operate in Wales and dedicate some if not all of their funds to tackling fuel poverty:-

Funding for fuel poverty	Delivery mechanism for fuel poverty
HEES	Warm Wales
CERT (replacing EEC)	Housing Health and Safety Rating
Local authority programmes	ESTAC / SEN (not main aim)
	European funding
	Energy supplier trust programmes

2.6 If we were to accept energywatch's estimate of fuel poor households in Wales as 270,000 and considered how effective HEES alone would be in tackling the numbers, treating it as a 'true' fuel poverty scheme and not an energy efficiency scheme, it would take approximately 19 years and £285m to help all fuel poor households. (Based on approximately 14,000 properties helped at a cost of almost £15m per year).

2.7 Since 2003 the escalating cost of domestic gas and electricity has single-handedly undermined the progress that was being made towards meeting the UK Government and Welsh Assembly governments targets. The reality of competition thereafter has seen suppliers chasing competitors' prices ever upwards. The collapse of this pillar has left a debilitating policy vacuum at a time when action on the actual price that fuel poor households are paying for their gas and electricity is essential. However, Government have declined to take decisive steps to ensure fuel poor households can access energy at the most affordable prices in the market; relying instead on repeated appeals to suppliers to volunteer assistance.

### 3. energywatch research into electricity prices in Wales

energywatch commissioned some research to review current household electricity prices in Wales and compare them with levels elsewhere in Great Britain as it had been concerned for some time that the prices paid by Welsh electricity consumers was, on average, 10% higher than the average price paid in Great Britain. At the very least consumers in Wales should know why they are paying higher prices and how the charges are made up.

3.1 The research:-

compared the overall level of prices paid by Welsh householders against rates in other regions of Great Britain to help establish if they are higher;

reviewed the supply chain costs for electricity to households in each of the 14 supply regions of Great Britain and assessed the levels of difference between them;

and considered whether the costs of supply is higher for Welsh consumers and therefore contribute to any premium in Welsh electricity prices.

### 4. Current electricity prices

4.1 As at 1 April 2008 consumers in North Wales pay, on average, 4% more and consumers in South Wales pay, on average, 10% more for their electricity compared to the English average.

Table 4.2 Current electricity costs in Wales and elsewhere in Great Britain

<b>£/year</b>	<b>Online Direct Debit</b>	<b>Direct Debit</b>	<b>Standard Credit</b>	<b>Prepayment</b>
<b>North Wales</b>	£361	£398	£425	£431
<b>South Wales</b>	£376	£417	£448	£456
<b>North Scotland</b>	£361	£393	£418	£426
<b>South Scotland</b>	£364	£398	£425	£433
<b>England (average of 10 regions)</b>	£339	£381	£408	£413

4.3 In looking for a possible explanation to the higher costs we compared whether the home area supplier charges a premium compared with the other operators as a means of establishing if this practice might be occurring in Wales to a greater extent than elsewhere in Great Britain. In order to do this, we calculated for each payment term the level above which the home area supplier's price stands against both the average of the other five major suppliers and the lowest price available from all six major suppliers.

4.4 The analysis suggests that any extra cost that is being borne by Welsh consumers is not necessarily caused by the home area suppliers wishing to extract higher profit margins through charging their customers who have not switched, relative to their counterparts in England and Scotland. A possible exception to this is consumers in North Wales who are opting to pay by standard credit terms.

4.5 In order to establish if suppliers might face higher costs in arranging their services for consumers in Wales, we assessed supply chain costs for a medium user consuming 3,300kWh per annum through a standard, single rate meter on an annualised basis, current at 1 April 2008, in each of the 14 charging regions (REC areas) of Great Britain.

## **5. Costs in the supply chain**

5.1 Irrespective of how a tariff to provide electricity to a householder is presented, in preparing it suppliers will assess separately the different costs in the supply chain. Suppliers' wholesale costs and their profits are commercial and confidential. However there is information in the public domain on costs for the other four elements, namely:- Costs to Serve; Regulated Obligations; Grid Charges and Network Losses.

5.2 The Costs to Serve across all of Great Britain are estimated at:-

Direct Debit customers £38 per annum

Standard Credit customers £48 per annum

Prepayment Meter customers £80 per annum

5.3 Regulated Obligations include the Renewables Obligation, the Carbon Emissions Reduction Target (CERT) and investment in Britain's energy networks. Added together these account for £27 per annum per electricity consumer.

5.4 Grid Charges are made up of transmission and distribution charges. Total grid charges for:-

South Wales £96 per annum

North Wales £76 per annum

Wales Average £86 per annum

Scotland £90 per annum

England £74 per annum

Wales has higher costs with per consumer costs above average levels in the rest of Great Britain. This is due to South Wales being the highest cost area of the 14 in Great Britain and North Wales & Merseyside being the eight highest. Both have costs significantly above the levels in the lowest cost regions.

5.5 Network losses are charged for the physical losses of electricity that occur between power stations and their meters. The costs for

losses are levied according to assessed loss factors. Transmission losses average 1.5-5% of all volumes injected onto, or taken off, this network and the associated costs are shared between generators and suppliers sectors on a ratio of 45:55. Losses from the distribution system are assessed by the Distribution Network Organisations. They publish percentage factors which vary by time of day and connection voltage. These can account for as much as 15% of produced energy by the time it reaches the consumer, depending on the time and connection voltage. The cost of the network losses are assessed at:-

Wales (average) 9.25% (South Wales 8.2%, North Wales 10.3%)

Scotland (average) 9.75% (South Scotland 8.4%, North Scotland 11.1%)

England (average) 8.75%

5.6 A consumer's metered energy consumption is inflated by loss factors like these by suppliers in their price setting and billing processes to reflect the cost of losses incurred in delivering power. Wales therefore has higher costs for losses, especially in the north, per consumer compared with average levels in the rest of Great Britain. The cost of system losses to individual consumers varies according to their terms of supply.

## **6. Initial research conclusions:-**

Both the supplier's own costs to serve, including metering and regulated Obligations are broadly consistent throughout Great Britain

Grid charges, made up of transmission and distribution costs and losses vary considerably by region. South Wales consumers pay the highest in Great Britain.

Grid charges account for between a half and two thirds of electricity supply chain costs, depending on region and payment terms

In total it is estimated that the grid charges for consumers in Wales are around 16% more than in England and 3% lower than Scotland.

But national figures mask significant variations for the two Welsh regions. Grid costs for South Wales are 7% higher than average levels in Scotland and 30% higher than average levels in England. Grid costs in North Wales are 15% lower than average levels in Scotland and 3% higher than average levels in England.

Around a half of the premium in bills paid for by consumers in Wales can be accounted for by higher costs of supply to consumers in the country compared with those located elsewhere in Great Britain. In absolute terms the residual element equates to 2-3% of the typical household electricity bill.

## **7. So what can be done?**

Suppliers to re-visit their pricing policy

Consideration to be given as to whether current calculations of Grid Charges and Network Losses need amending

A realistic and effective action plan to tackle fuel poverty

Campaign to encourage all consumers to switch supplier, if they are able, to minimise impact of increasing energy prices

Suppliers to provide 'proper' Social Tariffs for their customers

Submit research findings to BERR and Ofgem to aid in their investigation into the Energy Supply Market

Wendy Davies - 2 April 2008