Environmental *Change* Institute

UNIVERSITY OF OXFORD

Cambridge Architectural Research Ltd

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This submission comes from the Environmental Change Institute (ECI) of the University of Oxford and Cambridge Architectural Research (CAR) and is based on our recent research[i], together with a separate study on Scotland. We are delighted to have this opportunity to present evidence to the Select Committee's study *Preparing for Winter*. The Government has stressed security of supply in its energy policy, but has not addressed security of supply for the individual energy consumer. This evidence demonstrates that a focus on the needs of the low-income and/or fuel poor household is vital and we suggest how to do this.

Our main concern is how to help the fuel poor this coming winter, from October 2023. We analysed data from January 2019–May 2023 from the energy company, Utilita, for 11,519 of their customers all of whom had smart prepayment meters (ppm) for both electricity and gas. We have used these findings to propose possible ways forward for policy for all fuel poor households. We hope these ideas are useful for all four administrations, even where the policy is devolved. Our main proposal is for an Energy Cost Support Scheme (ECSS) to target the fuel poor, whatever tariff or payment method they are on. This will halve their energy bills the winter.

The main issues for the ECSS are:

- How should eligible households receive support?
- How to deliver support as quickly as possible?
- How much support they should be given?
- How to identify eligible households?
- How much will this cost and how will it be paid for?

How should support be received?

The focus here is on fuel poverty, not general poverty, so the support should be paid directly to the household's energy account, rather than into a bank or building society account. Payment to the energy account ensures that the money is used to purchase energy, rather than provide general help with the cost of living, important though that is. This tallies with the approach taken by the National Audit Office in its assessment of Energy Bill Support[ii].

The first component of our ECSS is that support should be provided automatically and directly to the energy account of the household.

How to deliver support quickly?

In theory, the support could be given as either money transfers, as with the monthly payments of the Energy Bill Support Scheme (EBSS) last winter, or through a reduced tariff. There are about 4.5m households on a prepayment meter, half of them are smart, half of them are traditional ppm, known

as a legacy ppm. It is not possible to make a transfer of money remotely to a legacy ppm, it has to be done in person, using the key/card. That is why the EBSS was given via vouchers to those on a legacy ppm and hence the problem of unclaimed vouchers. We are, therefore, not recommending a policy of lump sum payments to the fuel poor via their energy accounts.

It is possible, however, for the utility to alter the tariff remotely for all payment methods, including the legacy ppm. This is how the new unit rates in each cap are transferred to each energy account. The process is well understood by all utilities and can be implemented quickly: the new cap announced on 25 August is to be implemented by 1 October, a period of 5 weeks.

The second component of our proposed ECSS is that support should be given through reducing the tariff paid by the fuel poor, both the unit costs and the standing charge.

How much support should be given?

In October 2020, the price cap for typical household consumption was £1042. This was lower than the year before – prices were dropping. In August 2023, the price cap is at £2074, effectively double the rate of October 2020 – over £1000 more.

Last year, the EBSS provided £400 to every household through monthly payments onto customer's electricity accounts, including our smart ppm sample. These latter households halved the number of their electricity self-disconnections (when supply is cut off because more money is not put onto the meter) whilst they were in receipt of the EBSS: it did not eliminate disconnections. As no money was put onto the gas account, there was no effect on gas self-disconnections, which remained high. The implication is that a £400 payment for electricity was insufficient help to the fuel poor (since disconnections continued) and a higher payment of £500 is needed. For most UK households, the annual energy bill is approximately 50% for electricity and 50% for gas. For these reasons, we believe support worth about £1000 on average should be provided to fuel poor households this winter, split equally between gas and electricity for dual-fuel users.

We can achieve the £1000 average saving by reducing tariffs for households facing fuel poverty and returning them to the level in the October 2020 price cap of 3.5p/kWh for gas and 12.5p/kWh for electricity. Government would compensate the utilities for reduced income from these customers. There would be no limit on the household's energy consumption and no extra costs to other energy customers.

The third component of the ECSS is that support to the fuel poor should be given through reverting to the tariff in the October 2020 price cap to reduce the household's energy cost by half.

How to identify eligible households?

For speed and simplicity, our proposal is to focus on the data already available to the utilities, for instance the amount of energy consumed and the method of payment. This focus provides some good insights, but little knowledge on the overlap with fuel poverty. For future years, when there is more time, refinements can be implemented as necessary.

The Government's definition of fuel poverty is LILEE (low income, low energy efficiency) which does not enable an individual household to be identified, on an address-specific basis, even with existing data. This is partly why identifying the fuel poor is a major problem. In addition, a third of fuel poor households are not in receipt of a means-tested benefit[iii], so these benefits are not a good route for targeting help.

The main, potentially overlapping groups to receive the ECSS that we have identified are:

- The 4.5m households in the UK on a ppm.
- The recipients of the Warm Home Discount (WHD), which is being enhanced from 1 October. It is assumed that this will be paid directly onto the energy account as last year, and that eligibility may be increased to about 2.8m households. Some of the recipients are on means-tested benefits; others are thought to be in fuel poverty, as defined by LILEE. This group could easily be expanded.
- Households relying on electricity for heating, even when they have an alternative fuel. In 2022-23, 7% of our sample, with gas, had switched to electricity for heating: their use of electricity demonstrated exceptionally low levels of heating (less than 2000kWh for all uses of energy during the six winter months). For confirmation of what is a 'low' level of heating we refer to the Ofgem figure for a household on Economy 7 in the price cap calculations. This is 4200kWh pa, for all uses, in comparison with a home on both gas and electricity that typically uses 14,900kWh pa (recently reduced to 14,400kWh). We are proposing that each utility identifies those households where electricity is the main metered fuel, but consumption of electricity is less than 4200kWh. This will include some all-electric households as well as those who have stopped using gas. This is a difficult number for us to quantify, but we estimate a total of about 1m households.
- The final group are households known to rely on medical equipment that uses electricity, including the use of a fridge to store insulin for a diabetic. Many of these households are on the Priority Services Register (PSR), so are already known to the utility and probably identified by a flag on their account. These are households for whom the supply should never be disconnected. In our sample, many of these households were self-disconnecting, often indicating a shortage of money. We have estimated that this could be about 1m (4%) of GB households.
- The fourth component of the ECSS is that up to 9.3 m households, though possibly down to 8m because of overlapping groups, are put on the October 2020 tariff, from the above groups (and others) that are identifiable by each utility.

How much will this cost and how will it be paid for?

There is considerable uncertainty with all the figures we have used. But, from a policy perspective, there should be an expectation that the ECSS, this winter, will need to provide about £1000 to up to each of about 8m households in the UK – a total of £8bn.

The Government has already put aside £8bn in the present financial year to underwrite the Energy Price Guarantee, that will not now be required[iv]: the expenditure has already been budgeted for.

The fifth component of the ECSS is the £8bn already in the Government's budget, but not needed for the Energy Price Guarantee.

The proposed Energy Cost Support Scheme is, therefore, to give 8m fuel poor households support with their energy costs equivalent to £1000 per year, through revising the tariff on their electricity and gas bills to the level of the unit rates in the price cap of October 2020. The ECSS to be brought in as soon as possible after the start of the winter and the need for heating bills from October 2023.

The ECSS is a temporary, quasi social tariff, that could be implemented for this coming winter. How long it is required after that will depend upon new government policies, but the expectation[v] is that energy prices will stay high until 2030.

Cold weather payments

We are suggesting Extreme Weather Payments (EWP) should replace Cold Weather Payments (CWP). This is because the CWP are paid retrospectively after a week of below freezing weather. The household cannot spend money during the cold period, as they cannot be sure it will be given to them. The £25 is too little to compensate, so the present policy is too limited on both counts.

Weather-related payments are still needed for any period of extreme cold to support vulnerable households cope with the additional heating needs. With our proposed EWP, the payments would be paid for each day in regions where the Met Office predicts a minimum temperature of -4°C or below (equivalent to 0°C average over 24 hours) for the next day. They would be paid in advance, not in retrospect, so the household has the extra money for heating when it is cold. The payment must be at least £6.50 for each day, possibly more during colder weather or in colder regions, such as the North of England and Scotland.

Eligibility should be tied to a wider group of recipients than at present, probably the same as those getting the ECSS. With the present scheme, the money is paid into the customer's bank account, but it would be preferable if the money could be paid directly onto the householder's energy account.

Lower energy prices for the fuel poor (Q2 and Q6)

Household energy costs come from the price of each unit of energy as well as the quantity of energy required. Policy should aim to reduce both. The UK prices charged to domestic electricity consumers are based on a system of marginal pricing: the company providing the last tranche of supply during any half-hour period sets the price for all the other suppliers, even though the earlier commitments were at a lower price. This means the price is set, usually, by one of the less efficient, more expensive gas-powered generators.

This is now an outdated system, because 36% of UK electricity is coming from renewable sources (more every year), where there are no running costs from the purchase of fossil fuel. Long-term contracts for renewable energy - Contracts for Difference – are already purchased by the government. These typically provide electricity at a quarter of the price of traditional fossil-fuelled generators.

The electricity market should be split into two separate sections:

- A Green Power Pool (GPP)[vi] of cheap electricity that is generated from renewable and zero-carbon sources;
- The remaining electricity is dirtier (in terms of carbon dioxide) as it comes from generators using fossil fuel and is more expensive, because it is subject to the world market for these fossil fuels.

The GPP should be relatively quick to create as contracts already exist. Then, this cheap, green electricity is supplied to the fuel poor. This could be the same households as receive the ECSS, above: it could even be cheaper than the 12.5p/kWh of the October 2020 tariff. Thus, an early benefit is that the combined ECSS-GPP package provides cheap electricity to the fuel poor at nil cost to government. This will displace the need for government to subsidize household expenditure, by reducing the profits of the energy companies.

There is an additional benefit of the GPP approach. The ECSS will enable low-income households to use more energy, as the price will have dropped. The growth in energy use is counter to our climate objectives and net zero targets. By linking with the GPP, there will be an increase in demand for renewable electricity (and it will become relatively cheaper to use electric heating instead of gas) so

the combined policies will provide support for climate change commitments as well as helping the fuel poor.

In the longer-term, to reduce fuel poverty further, these households need to switch to purchasing electricity only. Policy should ensure that their homes are properly insulated and have an electric heating system, for instance an air source heat pump. They would cease to have a gas supply so would be independent of world energy prices. They would also have greater energy security through their improved energy efficiency.

The cost of energy to the household comes from the standing charge as well as the unit rates. The standing charges have increased substantially, despite being independent of world oil and gas prices. Part of the increase comes from Ofgem passing onto consumers the cost of 31 failed energy companies. These costs should be paid for by the industry or government, not by consumers.

Smart meters, debt and disconnection (Questions 3 and 4)

Evidence has shown the benefit of smart meters[vii], particularly for ppm users. With smart meters, the utility can identify, for an individual household, when energy use is dropping, or debt is growing. The utility can intervene and contact the customer directly, or through an app, and offer help and advice. For credit meter users, the utility has a duty to try and prevent the accumulation of debt that the householder will have difficulty paying back and risk complete disconnection from supply.

The wider provision of low / zero-interest loans would help standard credit and ppm households spread their fuel costs beyond the winter: reducing the effect of seasonality. Those households paying their bills by direct debit are able to spread the high cost of winter consumption across the whole year. This is not an option for other customers and efforts should be made to smooth payments, to ease budgeting. The ideal is for there to be a system where debt and disconnection can be avoided in virtually all cases.

We recommend a faster switch from traditional meters to smart meters and a stronger set of enforceable standards from Ofgem as to the level of service and support to be provided to the customer.

Security of supply and the Priority Services Register (Questions 3 and 4)

The Priority Services Register (PSR) is a list of those vulnerable households to be contacted if a break in supply is expected or has occurred, and who should be offered prompt support. It is a list maintained by each utility to procedure defined by Ofgem.

We have been surprised and concerned at the large numbers of households in our sample that are on the PSR and self-disconnecting: 22% of customers were both on the PSR and regularly self-disconnecting. On average each year, these households suffered 7 disconnection events for a total of 41 hours. These are households in need of protection, yet we have no system of helping them keep on supply on a daily basis, even when they run out of money. Some of them depend on electricity for medical equipment and even being disconnected for 5 minutes could be dangerous (eg for a child with a severe asthma attack requiring a nebulizer). In all cases, if the electric pump stops working, the gas heating ceases.

The whole PSR policy appears to need an overhaul and rethink, to include:

- The categories to more closely reflect the urgency of reconnection and/or staying on supply

- Those in the most vulnerable category (e.g. using medical equipment which needs a power supply) to have a flag on their account at the utility, for the whole year, so they cannot be disconnected, including by themselves
- A new policy to determine how the running costs of these PSR households are met, when they themselves can no longer afford them
- Clear requirements for how suppliers maintain their PSR on a regular, at least annual, basis
- Enforcement by Ofgem that these standards are achieved in practice
- An extensive publicity campaign, as many eligible households are not aware of the PSR's existence.

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[i] https://www.eci.ox.ac.uk/article/finding-fuel-poor-and-framing-better-policy

[ii] NAO-Energy-price-support-070223.pdf

[iii] Who are the fuel poor? - The York Policy Engine, University of York;

[iv] 14th June 2023 Commons Library Research Briefing on Gas and electricity prices under Energy Price Guarantee and beyond,

[v] Energy prices to remain significantly above average up to 2030 and beyond - Cornwall Insight

[vi] Reforming electricity markets for low-cost and low carbon power | UCL Institute for Sustainable Resources - UCL – University College London

[vii] Utilita (2023) Smart energy data for fuel poverty analysis, p6