



Social Tariffs
June 2011

Introduction

Fuel Poverty in Northern Ireland is driven by a number of factors – high energy prices, low income and low household energy efficiency levels. Academic and medical research clearly shows that living in a cold home can damage quality of life and health, leading to wider costs on the community. The latest official figures show that in 2009, 44 per cent¹ of households (302,000) in Northern Ireland were in fuel poverty, one of the highest rates in Northern Europe.

Householders in Northern Ireland face higher energy costs than the rest of the UK – spending £348 more per year on average. The higher expenditure is due to our reliance on home heating oil to heat our homes (68 per cent of homes overall and 82 per cent in rural areas). The price of home heating oil remains a serious issue for many fuel poor households. Over the recent winter period heating oil prices for a 900 litre fill fluctuated by up to £161 (or 40 per cent).

In Great Britain and other EU countries, energy companies are required to support vulnerable consumers and those in fuel poverty with their energy bills through the use of social/affordability tariffs and/or energy rebates. A social tariff is where a vulnerable consumer or a household in fuel poverty would qualify for a lower cost energy tariff than they otherwise would be paying.

Current examples of Social Tariff Schemes

Great Britain

In 2008, the UK Government signed a voluntary agreement with the six largest energy suppliers in Great Britain. The agreement set the minimum collective annual spend on social tariffs for vulnerable consumers during the period April 2008 to March 2011. It is estimated that energy suppliers spent an estimated £157 million on social tariffs during 2008-2009², with around 1.3 million households benefiting. The benefits of the existing social tariffs differ as well, depending on the supplier. It ranges from 15%-20% discount on the supplier's standard tariffs to annual rebates paid monthly. Beneficiaries of social tariffs are also entitled to free energy advice, benefit entitlement checks and free or discounted energy efficiency measures.

The Department of Energy and Climate Change has recently consulted on a replacement to the existing social tariff arrangements³, and as part of the spending review the Coalition Government announced that energy suppliers would be required to spend £250 million in 2011/12 rising to £310 million by 2014/15 on providing

¹ House Conditions Survey 2009. Northern Ireland Housing Executive, 2010.

² Source: UK Fuel Poverty Strategy Annual Report 2009, page 21.

³ <http://www.decc.gov.uk/en/content/cms/consultations/warmhome/warmhome.aspx>

assistance with energy costs for vulnerable consumers. This support will be delivered through the Warm Home Discount. The Warm Home Discount is a four year scheme that will offer financial assistance to vulnerable households in the form of a fixed rebate off electricity bills. Eligible households will receive a £130 discount per year on the electricity bill for the first two years, rising to £135 and £140 in years three and four respectively.

Republic of Ireland

The Republic of Ireland (ROI) has several initiatives to fight fuel poverty. These include schemes to improve the energy efficiency of fuel poor households such as the Warmer Homes Scheme as well as programmes that offer financial assistance to eligible applicants. The assistance to fuel poor households currently takes the form of two separate rebates, the Household Benefits Package and Fuel Allowance. Around 380,000 households received the rebate in 2010. Qualifying households that are connected to the electricity or natural gas supply can choose between the Electricity or Natural Gas Allowance under the Household Benefits Package.

The Electricity Allowance is an energy rebate that covers the standing charges and up to 2,400 units of electricity each year, unused free units automatically carried forward to the next bill. The Natural Gas Allowance is an energy rebate that grants a €52 deduction on the gas bill of the qualifying household every two months between June to November. The rebate is increased to €111 bimonthly between December and May. If the full allowance is not used, up to €150 can be carried over to the next bill. Those households that are not connected to the electricity or gas supply can apply for an energy rebate of €40.70 each month.

In addition, a Fuel Allowance was introduced as part the National Fuel Scheme in 1987 and is run and financed by the ROI government. The Fuel Allowance is available to fuel poor individuals who are dependent on long-term social welfare. It consists of a £20 per week energy rebate paid to the applicable fuel poor households between September and the end of April each year. During 2010-2011 an estimated 350,000 households received the allowance.

France and Spain

The French Government's strategy to tackle fuel poverty has focused on improving the energy efficiency of fuel poor households and also offering a discount on electricity and natural gas to eligible vulnerable consumers. The French Government provide an energy rebate which offers a reduction of the annual standing charge of around €88 and discount of between 13 and 20 per cent of a consumers bill.

In Spain, the Government assists fuel poor households through the use of a social tariff, which is available to vulnerable households, including pensioners, unemployed

or families with children. Those households that are eligible will benefit from a tariff freeze on the standard electricity tariff until 2013.

Australia

The New South Wales and Western Australia Governments provide financial assistance to fuel poor households through a fixed rebate on their electricity bill, between \$160 and \$170 annually. Additional assistance is provided to families with children in Western Australia. The amount is based on the number of dependants and ranges from 61.30 cents per day for one child to 111.07 cents per day for four children.

Social tariffs in Northern Ireland – A way forward

The domestic energy market in Northern Ireland is characterised by several differences to the market in Great Britain:

- Competition in the electricity and natural gas domestic markets is in its infancy, which has resulted in low levels of switching between suppliers.
- 68% of households⁴ in Northern Ireland use heating oil to heat their home - oil is not regulated.
- Households using oil spend around £1,000 more each year on energy than those using gas.
- High levels of fuel poverty, with 44% households⁵ in NI experiencing the problem in 2009.

In addition, the main focus of successive Northern Ireland Fuel Poverty Strategies has been supporting energy efficiency⁶ measures. A lack of an Inter Departmental approach to tackling fuel poverty has prevented the Executive from addressing other causes of fuel poverty such as rising energy prices and low household income, as these fall outside the Department for Social Development's remit. The experience of Great Britain during the period 1996-2008 confirms that fuel poverty strategies focusing solely on energy efficiency can only succeed during periods of stable energy prices and economic growth.

Rising fuel and energy costs have resulted in many countries revising their fuel poverty strategies to introduce financial support for households struggling with the cost of energy. Based on the analysis of these programs six principles can be identified for a successful affordability scheme:

⁴ Source: Northern Ireland House Condition Survey 2009.

⁵ Source: Northern Ireland House Condition Survey 2009.

⁶ Warmer Healthier Homes – A New Fuel Poverty Strategy for Northern Ireland March 2011

1. It must provide a clear benefit for consumers. Consumers must have certainty about the level of financial assistance they will receive so that they can budget for their energy costs.
2. It must provide targeted support to fuel poor households.
3. The scheme should provide value for money for consumers.
4. Any financial assistance towards energy bills should maintain incentives for consumers to look for the best deal or tariff and for energy suppliers to compete across all market segments.
5. Social tariffs and rebates should not leave consumers vulnerable to fluctuation of energy and fuel prices.
6. There should be an automatic application and renewal process to ensure high uptake amongst target groups.

The rapid increase of the number of fuel poor households in Northern Ireland since 2004 is an indication of the shortcomings of the current Northern Ireland Fuel Poverty Strategy. The introduction of a social tariff to Northern Ireland could help play a part in helping vulnerable households afford the increasing cost of energy.

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