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Northern Ireland Assembly

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REVIEW OF THE HOUSE OF COMMONS BUSINESS AND ENTERPRISE COMMITTEE REPORT "ENERGY PRICES, FUEL POVERTY AND OFGEM" AND ITS IMPLICATIONS FOR NORTHERN IRELAND

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This paper provides a summary of the House of Commons, Business and Enterprise Committee report: *Energy prices, Fuel Poverty and Ofgem* (Eleventh report), providing analysis from a Northern Ireland perspective.

EXECUTIVE SUMMARY

1 WHOLESALE GAS

1a 11th REPORT

Gas Fired power accounts for about one third of the UK's and two thirds of Northern Ireland's generating capacity. Wholesale gas price determines wholesale electricity price, therefore the competitiveness of the gas market determines the competitiveness of the energy market as a whole.

Future prices have risen since spring 2007, to a high of 67 pence per therm (usual gas measurement). The UK's wholesale gas market is the most mature in Europe and amongst the most liquid in the world although concerns remain over the lack of liquidity in the futures market.

Dependence on gas is increasing while indigenous stocks are depleting, **imports of gas are expected to reach 40% by the end of 2008.**

The UK wholesale market has a relatively low level of market concentration. However, increased dependence upon supply sources with a higher level of market concentration will lessen competitive influences in the future.

Liquefied Natural Gas imports of 5% (07/08) are expected to rise to 35% over the next ten years.

Significant additional gas storage, beyond current needs, is required – "An issue of national importance".

Indexing of long-term gas contracts to the price of oil in European gas market creates a difficulty in responding to changes in supply and demand – distorting the wholesale gas market and the environment in which investment and consumption decisions are made.

Speculation is contributing to price increase on the wholesale gas, **Shell have commented: "we find it difficult to rationalise all of the price movements on the basis of fundamentals alone".**

1b NORTHERN IRELAND

All of Northern Ireland's gas is received from Great Britain, as a result the market here is as susceptible to fluctuations on the wider market as the UK market as a whole.

However, the following factors are unique to Northern Ireland:

- **Despite a relatively small domestic market, a higher reliance upon gas as a means of electricity generation may intensify the link between the competitiveness of the gas market and the competitiveness of the energy market as a whole** (two-thirds of electricity is generated from gas compared to one-third in the rest of the UK);

- **As the supply into the UK pipeline is falling Northern Ireland is required to import via tanker which is more costly;**

- **Northern Ireland has no gas storage facilities**, leaving it more open to seasonal price fluctuations (although proposals for underground gas storage near Larne are ongoing);

- Northern Ireland's geographical situation means that **there are potential benefits in exploring an All-Island gas market**, a move which was put into process in April 2008 with the "Memorandum of Understanding by Energy Regulators".

- **Transmission prices drive up cost**.

- **The Utility regulator is required to approve any increase in natural gas price** in Northern Ireland in consultation with the consumer council.

2 WHOLESALE ELECTRIRICTY MARKET

2a 11th REPORT

The wholesale electricity market in Great Britain is dominated by the 'Big 6', who together hold approximately 70 per cent of the general electricity output share.

The wholesale and retail markets "*are closely linked* *and it is the problems in with wholesale market that are restricting competition in the retail market*".

Wholesale electricity prices have been rising since spring 2007. **The most important factor in this is the higher price of gas and coal, which provide 37% and 38% respectively of Great Britain's power generation**. Recent price increases in oil, coal and gas has meant that producers have faced the same rising input costs regardless of their generating portfolio

In addition to the factors which have resulted increased input costs, **environmental factors have also driven up wholesale prices,** particularly the EU Emissions Trading Scheme 2005 (EU ETS).

Based on output the Electricity market is thought to have a low level of market concentration (rated 986 on the HHI). Take over of British Energy by foreign interests could reduce the amount of information, relating to its nuclear production, the company shares with the market.

The closure of many of the UK's coal and nuclear power stations is imminent, and **there is a considerable need for investment to ensure current generation capacity**.

2b NORTHERN IRELAND

The wholesale market in **Northern Ireland is dominated by what might be called a 'Big 3'.** The largest firm being Premier Power with the capacity to provide approximately 50% of Northern Ireland's electricity needs. ESB International and AES make up the remainder of the 'Big 3'.

The rising price of the raw materials used in the production of electricity has lead to increases in the utility's price. Throughout Great Britain the biggest influence has been rises in coal and gas. The situation in Northern Ireland is slightly different. Although coal and gas remain the predominate sources of electricity generation, the reliance on gas is much higher in Northern Ireland.

During their previous presentation to the Committee for Enterprise Trade and Development the Utility Regulator stated: ***"Northern Ireland's consumers do not pay full price for carbon.*** *The value of the carbon permits associated with that generation is recycled through the Public Service Obligation to the benefits of consumers."*

While the wholesale market is deemed moderately competitive in Great Britain, the Northern Ireland market, consisting as it does of half the number of "big" operators and a number of smaller generators in the renewables sector, might be considered closer to an oligopoly. The Single Electricity Market has been cited as a tool in reversing this trend.

Northern Ireland is likely to experience similar need for infrastructure improvements. Some recent developments have already set Northern Ireland on the path towards infrastructure redevelopment.

3 RETAIL GAS AND ELECTRICITY MARKETS

3a 11th REPORT

Household bills have been increasing since 2004 across all payment types, similar increases are being experienced elsewhere in Europe. Data up to June 2008 shows that UK electricity prices, excluding taxes are now the sixth highest in the EU 15 and average domestic gas prices are the lowest in the EU 15.

Changes in supplier costs, including environmental pressure and the cost of energy and margin have led to increased retail prices, with the second of the two being cited by Ofgem as the major contributing factor.

Customers in Great Britain can avail of "switching", customers who have never changed supplier can save on average £125 per annum if they are on a pre-payment meter (PPM), £93 if they are on standard credit and £56 if they are paying by direct debit.

Prepay meters remain the costly form of payment type in the Great Britain.

The **SME** market in Great Britain is one where ***energy suppliers tend to offer much lower prices to new customers, cross-subsidised by existing customer base which remains relatively static.***

3b NORTHERN IRELAND RETAIL ELECTRICITY MARKET

On 1 July 2008 NIE Energy Ltd announced a **14 per cent increase on all tariffs**, with a further announcement expected in September.

This was contributed to wholesale cost alone. **Profit margins have not been cited as a contributory factor.**

Committee the Consumer Council noted that with the 14 per cent price rise, energy prices will have risen by **35 per cent in the last years.**

People in Northern Ireland pay approximately **7 per cent more** for electricity than their counterparts in Great Britain.

A more equitable prepay meter system exists in Northern Ireland. NIE Energy's keypad system is used by approximately 27per cent of their customers and unlike the rest of the UK the **prepay system offers a discount of 2.5 per cent** to consumers using it. Direct **Debit yields a saving of 4 per cent**.

RETAIL GAS MARKET

Phoenix Natural Gas, Northern Ireland is principal supplier of natural gas to domestic customers, announced a **28 per cent price rise in April 2008**. The company estimate that **wholesale gas cost in summer 2008 were 140 per cent higher than they were the previous summer** and will be 114 higher this winter compared to last.

Phoenix Natural Gas who, with only one price increase so far this year, falls in the median range of increases across the UK.

From 2008, **the average Phoenix Natural Gas bill is expected to be 17 per cent lower than gas bills in the rest of the UK** and 4 per cent lower than bills in the Republic of Ireland.

The single biggest issue that can help push gas prices down is the addition of more gas customers.

4 FUEL POVERTY

4a 11th REPORT

National Energy Action believes UK fuel poverty levels to have now reached around 4.5m.

Other things being equal, with every 10% increase in energy prices, 400,000 people go into fuel poverty.

The report notes the main weapon in the government's battle against fuel poverty is the benefit system, particularly the Winter Fuel Payment. **Last, year 11.7 million people received payments.**

Two main initiatives, for improving energy efficiency exist CERT and Warmfront. Since 2002, the Government has raised the grant ceiling (£2,700) by far less than the rate of inflation. From 2008, funding for the scheme has been cut, from £350m in 2007/08 to £295m in 2008/09. Funding will further reduce to £270m in 2009/10 and £235 2010/1 **Warmfront is not directed towards the fuel poor and is only available to households on certain benefits**

4b NORTHERN IRELAND

The most recent fuel poverty figures for Northern Ireland (2006) place approximately 34 per cent of people in the fuel poor bracket.

During winter 2006/07, **216,079 households in Northern Ireland received a winter fuel payment, the equivalent to a £50.6 million spend**.

Despite this spend the Consumer Council is concerned that ***"Winter-fuel payments are not being given to everyone who needs them",*** particularly the working poor, families and households with no members over 60.

Warm Homes, Northern Ireland's equivalent to Warmfront provides a package of insulation measures up to the value of £850 and heating and insulation measures up to the value of £4300. Since 2001 the scheme has assisted 60,000 homes**. In 2007/08 it provided grants averaging £1,835 to approximately 11,300 households. To date a total of £109m has been spent on the scheme.**

The Northern Ireland Audit Office made the following assessment of the scheme:

- the scheme's performance monitoring is simplistic and does not provide a robust measure of performance;
- the scheme's eligibility criteria exclude significant numbers of the fuel poor, while providing assistance to many households who are not in fuel poverty;
- the energy efficient measures provided by the scheme are not sufficient to lift households out of fuel poverty and their impact is negligible;
- the costs of the scheme have increased significantly and in excess of inflation since 2001; and
- independent quality assurance has raised significant concerns about the quality and timeliness of the works completed over a number of years.

To the above it is worth adding the Consumer Council remarks;

"In a lot of fuel-poor homes, there is heating and lighting, but there is not enough money to allow people to turn on the heating."

Contents

1 INTRODUCTION

"High energy prices affect both individual consumers, and the competitiveness of the UK economy as a whole."[1]

The above statement from the Business and Enterprise, only begins to touch on the prevalence and significance of the energy issue in the UK over the previous year. This paper provides a summary of the House of Commons, Business and Enterprise Committee report: *Energy prices, Fuel Poverty and Ofgem* (Eleventh report), providing analysis from a Northern Ireland perspective.

Table 1, outlining the percentage of total generation the various fuel sources account for in Northern Ireland (2004 to 2006), is used to inform the analysis. The table was originally published as two consecutive BERR Sub National Electricity reports (2004/05 and 2005/06), and represents the most recent figures available. The total generation figures exclude approximately 118GWh of electricity generation each year; this is due to the merging of some data for England and Northern Ireland in the original statistics. As a result the figures are indicative rather than absolute.

Increases in the price of oil are only touched upon in this paper as the fuel source does not form a significant a part of the UK fuel mix as a whole. In Northern Ireland, however, oil accounts for 70 per cent of the region's retail heating sector. Crude oil prices are currently 82 per cent higher than they were in 2007, with the price of a barrel reaching a new peak of $187 in July 2008.[2]

TABLE 1: INDIGENOUS ELECTRICITY PRODUCTION NORTHERN IRELAND[3]

Generation By Fuel	2004		2005		2006	
	GWh	% Total	GWh	% Total	GWh	% Total
Coal	2,711	37	2,455	26	2,701	27
Oil	347	5	331	3	286	3
Gas	4,083	56	6,454	68	6,799	67
Thermal Renewables	3	0.04	6	0.06	19	0.19
Hydro	8	0.11	14	0.15	32	0.32
Non-thermal Renewables	140	2	253	3	299	3
Total	7,292	-	9,513	-	10,136	-

[1] Business and Enterprise - Eleventh Report http://www.publications.parliament.uk/pa/cm200708/cmselect/cmberr/293/293i.pdf (accessed 01/09/08)
[2] Phoenix Supply Ltd, Briefing Paper 04/09/08
[3] http://www.berr.gov.uk/files/file43818.pdf and http://www.berr.gov.uk/files/file43902.pdf (accessed 01/09/08)

2 THE WHOLESALE GAS MARKET

Gas Fired power accounts for about a third of the UK's generating capacity. Wholesale gas price determines wholesale electricity price, therefore the competitiveness of the gas market determines the competitiveness of the energy market as a whole.[4] This situation is amplified in Northern Ireland where gas accounts for approximately two thirds of generating capacity (see Table 1).

This section outlines the issues raised in the Eleventh report concerning the wholesale market before examining any knock-on to Northern Ireland's wholesale gas market.

2.1 MARKET STRUCTURE;

There are three sectors within the global wholesale market structure: On the spot; Forward and Futures Trading; and Off-Market Contracts

Wholesale gas future trading prices have risen since spring 2007 – from a low of 20 pence per therm (p/th) to 67.5p/th (July 2008). Wholesale prices are considerably higher than supply prices which may be as low as 15p/th. In a presentation to the Committee for Enterprise, Trade and Investment, NIE Energy Ltd predicted wholesale gas prices to reach 96p/th by winter 2008/09.[5]

The UK's wholesale gas market has been the most mature in Europe since liberalisation in the 1990s. It is also the most liquid. However, despite having one of the most liquid spot markets there is concern over the lack of liquidity in the forward market.

There are contradictory figures for the proportion of gas delivered to the UK traded through off-market long term contracts, Energywatch estimate 30%, Ofgem 60-70% and Shell; 20-25%. The apparent discrepancy has been called "troublesome", blurring "visible market" estimates and making policy interventions difficult.[6]

2.2 DEPENDENCE;

Dependence on gas is increasing, with North Sea supplies depleting – 2003/04 figures for imported gas were 2 per cent, for 2008/09 the same figure is expected to be 40 per cent, with estimates rising to 80 per cent by 2018.

Recent infrastructure investments have been made to ease imports. Import capacity does not guarantee the flow of gas into the UK – market attractiveness and a willingness to pay are greater determinants.[7]

2.3 MARKET CONCENTRATION;

Approximately 120 firms are currently active in supplying gas to Great Britain's Transmissions system, the UK wholesale market has, as a result, a relatively low level of

[4] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 01/09/08)
[5] Committee For Enterprise, Trade and Investment - Minutes of Evidence, 29/05/08 http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080529.htm (accessed 01/09/08)
[6] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 01/09/08)
[7] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 01/09/08)

market concentration, increasing the impact of competitive influences. There are, however, relatively few market participants from certain sources of supply, particularly Norway.

The current low level of concentration only provides a snapshot of a rapidly evolving market – the future will see increased dependence upon supply sources with a higher level of market concentration, and such the impact of competitive influences will lessen.[8]

2.4 LIQUID NATURAL IMPORT (LNG) CAPACITY;
LNG imports of 5% (07/08) are expected to rise to 35% over the next ten years – provided new import infrastructure comes into place. To attract LNG the UK market will need to be able to compete with the Global market. Currently, approximately 50% of the potential delivery slots at UK's prime LNG importation site are being used. Other countries have been prepared to pay more than the UK for LNG Cargoes.[9]

2.5 GAS STORAGE;
As the UK becomes increasingly dependent upon imports the lack of available storage facilities creates greater volatility in wholesale prices as supply must be balanced through imports rather than drawing on reserves. Significant additional storage, beyond current needs, is required – "An issue of national importance".[10]

2.6 EUROPEAN-UK GAS PRICE LINK; I
n recent years the European gas price has set the floor for the UK price during the summer when the UK is a net exporter, with its Gas going into winter storage. In winter, UK gas prices rise markedly above EU levels in order to draw gas into the UK. The Eleventh report argues that European suppliers are too slow to respond to these price signals, and is supportive of the EU's attempts to liberalise the legal and contractual side of the European market. [11]

2.7 OIL-GAS PRICE LINK;
a key feature of the European gas market is the indexing of long-term gas contracts to the price of oil, usually with a lag of three to nine moths. This creates a difficulty in responding to changes in supply and demand – distorting the wholesale gas market and the environment in which investment and consumption decisions are made. In the absence of short-medium term liberalisation it is likely that EU gas prices will continue to increase in lagged response to oil price increases, feeding through to the UK market.[12]

The problems associated with the continued link between European wholesale gas market and the international oil market could be compounded in the future by the possibility that we may be entering a period of global peak oil. Depending upon the

[8]Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 01/09/08)
[9] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 01/09/08)
[10] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 01/09/08)
[11] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 01/09/08)
[12] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 01/09/08)

commentator consulted the *era of easy oil* is either over[13] or the *days of the international oil companies are coming to a glorious end because their reserves are declining and they will have difficulty accessing new reserves[14].*

The issue of speculation and its affect on the oil-gas price link was also raised in the report. Although the evidence presented by oil and gas producers suggested market fundamentals will determine the long term price of oil, a number of producers indirectly highlighted the role of speculators. Shell stated: "we find it difficult to rationalise all of the price movements on the basis of fundamentals alone". While ExxonMobil also said: "We are surprised about the prices we see today".

The report notes:

"Since June 2008 US politicians have voiced concern that speculators are exploiting differences between the regulatory frameworks for energy commodity trading in the UK and US—an issue referred to as the 'London loophole'"

In their presentation to the ETI Committee, Phoenix Natural Gas stated that gas was traded six times before it is burned.

2.8 NORTHERN IRELAND;

Since Northern Ireland currently gets all of its gas from the British Wholesale market, fluctuations on that market are felt here as a knock on effect to consumers of both natural gas and electricity, in short Northern Ireland is currently dependent on the wider UK market. There are, however, a number of unique aspects to Northern Ireland's infrastructure, which affect the significance of the traits mentioned above. These include:

- Despite a relatively small domestic market, a higher reliance upon gas as a means of electricity generation may intensify the link between the competitiveness of the gas market and the competitiveness of the energy market as a whole (two-thirds of electricity is generated from gas compared to one-third in the rest of the UK);[15]

- As the supply into the UK pipeline is falling Northern Ireland is required to import via tanker which is more costly;[16]

- Northern Ireland has no gas storage facilities[17], leaving it more open to seasonal price fluctuations (although proposals for underground gas storage near Larne are ongoing[18]);

[13] Energy Watch Group http://www.energywatchgroup.org/fileadmin/global/pdf/EWG_Oilreport_10-2007.pdf (accessed 01/09/08)
[14] International Energy Agency http://business.timesonline.co.uk/tol/business/industry_sectors/natural_resources/article4368523.ece (accessed 01/09/08)
[15] http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080424.htm (accessed 01/09/08)
[16] http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080424.htm (accessed 01/09/08)
[17] http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080424.htm (accessed 01/09/08)
[18] http://www.northernireland.gov.uk/news/news-deti/news-deti-120508-minister-welcomes-gas.htm (accessed 01/09/08)

- Northern Ireland's geographical situation means that there are potential benefits in exploring an All-Island gas market, a move which was put into process in April 2008 with the "Memorandum of Understanding by Energy Regulators";[19]

- Transmission prices drive up cost;

- The Utility Regulator is required to approve any increase in natural gas price in Northern Ireland in consultation with the consumer council.

3 THE WHOLESALE ELECTRICITY MARKET

The House of Commons Business Committee's Eleventh Report examines the UK's wholesale electricity market across a number of variables. This section provides an overview of the issues raised by the report, followed by an analysis from a Northern Ireland Perspective.

3.1 MARKET STRUCTURE

3.1a ELVENTH REPORT**;** The wholesale electricity market in Great Britain is dominated by the 'Big 6', a moniker used to describe the largest energy producing firms in the region. The six firms; British Energy; EON; EDF; Scottish and Southern Energy; RWE Npower; and Scottish Power[20], together hold approximately 70 per cent of the general electricity output share.[21] Each of the firms is a vertically integrated company, also operating within the retail and supply sector.

In their evidence to the Business and Enterprise Committee, Good Energy summarised the significance of the wholesale market, commenting that the wholesale and retail markets "*are closely linked and it is the problems in with wholesale market that are restricting competition in the retail market*".[22]

3.1b NORHTERN IRELAND;
The wholesale market in Northern Ireland is dominated by what might be called a 'Big 3' (as opposed to a 'Big 6). As far as generation is concerned the largest company (based upon generation capacity) is Premier Power, a subsidiary of British Gas, responsible for operating Ballylumford Power Station, Islandmagee. Premier Power has the capacity to provide approximately 50% of Northern Ireland's electricity needs.[23] The next largest firm is ESB Ltd, who runs Coolkeeragh Power Station. ESB Ltd are part of ESB International who were formally the state owned energy organisation in the Republic of

[19] DETNI Press Release 18/04/08 http://www.northernireland.gov.uk/news-deti-180408-minister-welcomes-gas (accessed 01/09/08)
[20] http://www.fool.co.uk/news/money-saving-tips/household-bills/2008/09/01/the-big-six-energy-suppliers-vs-the-rest.aspx (accessed 01/09/08)
[21] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29306.htm (accessed 01/09/08)
[22] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29306.htm (accessed 01/09/08)
[23] http://prod.belfasttelegraph.co.uk/business/top-100-companies/99-premier-power-13885729.html (accessed 01/09/08)

Ireland. The final member of the Big 3 is AES, an American company operating the Kilroot coal and oil power station.

3.2 RISING INPUT PRICES

3.2a ELEVENTH REPORT;

The link between wholesale electricity prices and variations in the price of other fuels was outlined earlier, particularly with references to the wholesale price of gas; however, the evidence presented to the Business and Enterprise Committee demonstrates a similar relationship applies to all types of electricity. The Eleventh Report summarises the current situation as one where:[24]

- Wholesale electricity prices have been rising since spring 2007;
- UK prices are higher than their competitors, including France and Germany;
- The most important factor in this is the higher price of gas and coal, which provide 37% and 38% respectively of Great Britain's power generation; and
- Recent price increases in oil, coal and gas (coal has doubled since 2007) has meant that producers have faced the same rising input costs regardless of their generating portfolio

The combination of the above was deemed by the Committee to *go some way to explain the apparent synchronisation of electricity suppliers' price increase in early 2008.*[25]

3.2b NORTHERN IRELAND;

As outlined above, the rising price of the raw materials used in the production of electricity has led to increases in the utility's price. Throughout Great Britain the biggest influence has been rises in coal and gas. The situation in Northern Ireland is slightly different. Although coal and gas remain the predominate sources of electricity generation, the reliance on gas is much higher in Northern Ireland.

From Table 1 it is evident that on average (between 2004 and 2006) Northern Ireland generates approximately 64 per cent of its electricity supply from gas and 30 around per cent from coal. Northern Ireland's reliance on coal fuelled electricity is below that of the Great Britain. The table also suggests that its overall use is in decline. Gas fired electricity in Northern Ireland, by contrast, accounts for nearly twice as much electricity generation than it does in Great Britain. The up-shot of this is that although fluctuations in price across all input fuels will affect the final wholesale price, fluctuations in gas price will be felt more acutely. Given the disproportionate reliance on gas it is likely that, in terms of the regional impact of gas price changes, Northern Ireland will feel the affects most.

[24] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29306.htm (accessed 03/09/08)

[25] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29306.htm (accessed 03/09/08)

NIE Energy Ltd, presenting to the Committee for Enterprise, Trade and Investment, have demonstrated the link between rising input prices and final retail tariffs as it has manifested itself here. The company stressed that the on-spot nature of the gas market has meant that the price generators pay changes every 30 minutes. High gas prices lead to high spot prices appearing in the Single Electricity Market (SEM), this in turn increases the price of fixed-rate 12 month contracts between generator and supplier - an increase which has been passed onto the consumer in the form of a 14 per cent increase in the electricity tariff.[26]

3.3 RISING ENVIRONMENTAL COSTS

3.3a ELEVENTH REPORT;

In addition to the factors which have resulted in increased input costs, environmental factors have also driven up wholesale prices. The evidence presented to the Business and Enterprise Committee highlights the role of the EU Emissions Trading Scheme 2005 (EU ETS). The affects of the scheme may be summarised as follows:[27]

- The EU ETS has led to the cost of carbon to be factored into wholesale price. Phase 2, January 2008, created a CO_2 price of €20-30 per tonne;
- Under Phase 2 electricity generators receive a large proportion of their carbon cost free;
- Because permits have a market value, generators have benefited from windfall profits by increasing their wholesale prices to reflect the opportunity cost of using their permits;
- Energy companies could choose not to generate electricity and sell their permits on the open market instead;
- Therefore, wholesale prices need to rise by at least the cost of the permits to ensure an incentive to generate power;
- Ofgem believe the ETS is adding £9 per megawatt hour (MWh) to the wholesale price of electricity, which equates to a £9m windfall to the UK generating sector over the lifetime of Phase 2 (2008-2012);
- Similar patterns can be expected throughout the EU, and as such this scheme cannot be seen to be a cause of the differential price between the UK and Europe;
- During Phase 3 of the ETS all permits will be auctioned off so the current windfall can be seen as a one off benefit;

[26] Committee for Enterprise, Trade and Development, Official Report, 29/05/08 http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080529.htm (accessed 03/09/08)
[27] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29306.htm (accessed 03/09/08)

- A numbers of companies have recognised the benefits this scheme has afforded them, stating that the windfall will be used to shield customers from higher prices or fund investment into new plant or plants which would have otherwise closed.

On the basis of the evidence the Committee has concluded that:

- The magnitude of the windfall received by energy companies as a result of the EU ETS is difficult to gauge;

- It is likely that a proportion of this windfall has been passed on to consumers, in the form of lower retail prices, via cross-subsidy from their generating arms;

- The available analysis (conducted by Ofgem) is "superficial"; and

- A Government inquiry, estimating the value of any windfall profits and their destination, to determine whether these profits should be redistributed, is recommended.

3.3b NORTHERN IRELAND;
During their previous presentation to the Committee for Enterprise Trade and Development the Utility Regulator stated:

"Northern Ireland's consumers do not pay full price for carbon. The value of the carbon permits associated with that generation is recycled through the Public Service Obligation to the benefits of consumers."[28]

In the same address the Regulator stressed the ongoing significance environmental factors will have in overall energy considerations, considering the UK's *aggressive* and the EU's world leading environmental programmes. It was stressed that action now would be less costly than action later.[29]

3.4 MARKET CONCENTRATION

3.4a ELEVENTH REPORT;
The traits defining the concentration of the wholesale electricity market in Great Britain are summarised as follows;

- Based on output the Electricity market is thought to have a low level of market concentration (rated 986 on the HHI[30]);

- The Big 6 account for 55% of the UK's total energy output (electricity and other sources);

[28] Committee for Enterprise, Trade and Development, Official Report 24/04/08 http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080424.htm (accessed 03/09/08)
[29] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29305.htm#a3 (accessed 03/09/08)
[30] The Herfindahl-Hirschman Index, commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. http://www.usdoj.gov/atr/public/testimony/hhi.htm (accessed 03/09/08)

- Recent speculation has arisen over consolidation of the market, with a number of mergers resulting in a Bigger 5;

- Take over of British Energy by foreign interests could reduce the amount of information, relating to its nuclear production, the company shares with the market.

The electricity portfolio outlined above has been defined as *diverse* by the committee. The HHI rating of 986 would suggest the market's level of competition is slightly better than the bracket deemed to be moderately competitive (1000-1800 on the index).[31] However, recent developments, particularly the lingering possibility of market consolidation, threaten to reduce this level of competition with a potential knock on effect on consumers.

3.4b NORTHERN IRELAND;
While the wholesale market is deemed to be moderately competitive in Great Britain, the Northern Ireland market, consisting as it does of half the number of "big" operators and a number of smaller generators in the renewables sector, might be considered closer to an oligopoly.

The potential problems posed by consolidation facing the wholesale market in the rest of UK have in the past been a defining feature of the Northern Ireland market. The introduction of the Single Electricity Market (SEM) in November 2007 with express intention of providing:

"…a competitive, sustainable and reliable wholesale market in electricity aimed to deliver long-term economic and social benefits that are mutually advantageous to Northern Ireland and the Republic of Ireland."[32]

Given the relatively short period of time the SEM has been in operation and its *long-term* aim, coupled with the volatility of the market during its first year these expected benefits have not yet been realised.

3.5 NEW CAPACITY

3.5a ELEVENTH REPORT;

The evidence presented to the Committee recognises that the closure of many of the UK's coal and nuclear power stations is imminent, and there is a considerable need for investment to ensure current generation capacity. Specifically, around 12gw of coal and oil fired generation will be closed by 2015 and 7.4gw of nuclear by 2020. At present BERR is aware of 18gw of potential conventional generating capacity, covering 90% of the future shortfall.

In addition the National Grid expects 6.2GW of onshore wind and 2.5GW of offshore wind power to come on-stream by 2014/15. This is not guaranteed but is rather

[31] http://www.usdoj.gov/atr/public/testimony/hhi.htm (accessed 03/09/08)
[32] All Island Market http://allislandmarket.com/ (accessed 03/09/08)

dependent upon the planning climate, the availability of transmission grid capacity, and the skills capacity of the construction industry.[33]

The very real and pressing need for investment suggested above carries with it a number of conditions and implications. Any investment in new generating capacity can only be carried out by profitable companies, and only then if these companies see a *considerable* commercial opportunity in investing. [34]

The need for investment can also be tied into the question of windfall profits raised earlier. The Committee has recommended an analysis of the extent and destination of energy company windfalls (particularly those resulting from the EU ETS). The report also suggests that this analysis provides an indication of how these windfalls should be distributed, if at all. Given the *huge*[35] need for investment expressed by the committee it would follow that any windfall redistribution would predominately favour the investment route rather than an approach more readily felt by consumers in the short-term.

3.5b NORTHERN IRELAND;

Northern Ireland is likely to experience similar need for infrastructure improvements. The region has also seen some of its own generating capacity close down. In 2002, for example, Belfast West power station closed down after 48 years in service.[36]

Some recent developments have already set Northern Ireland on the path towards infrastructure redevelopment. Since April 2005, the then newly constructed Combined Cycle Gas Turbine (with a 400MW capacity) at the Coolkeeragh ESB Power Plant began to supply customers.[37]

The opening of the Single Electricity Market has also spurred on development. Two projects have been proposed to develop electricity transmission throughout the island[38];

- EirGrid and Northern Ireland Electricity have proposed a 80km 400kV electricity connection between the Republic of Ireland and Northern Ireland; the Cavan – Tyrone 400kV Project , and
- EirGrid has proposed a further 60km, 400kV development to the transmission network north of Dublin; the Meath – Cavan 400kV Project

[33] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29306.htm (accessed 03/09/08)
[34] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29306.htm (accessed 03/09/08)
[35] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29306.htm (accessed 03/09/08)
[36] AES http://www.aes.com/kilroot/index?page=history (accessed 03/09/08)
[37] Coolkeeragh ESB http://www.coolkeeraghesb.co.uk/about/index.htm (accessed 03/09/08)
[38] Northern Ireland Electricity, http://www.nie.co.uk/interconnector/docs/pb%20Power%20summary%20report%20on%20underground-final%2011%20(2_.pdf (accessed 03/09/08)

4 RETAIL GAS AND ELECTRICITY MARKETS

4.1 HISTORIC PRICES;

The Business and Enterprise Committee report notes that household bills have been increasing since 2004 across all payment types, adding that similar increases are being experienced elsewhere in Europe

BERR data for median consumers, which runs up to June 2008, shows that UK electricity prices, excluding taxes are now the sixth highest in the EU 15, and 7.4% above the median price. Average domestic gas prices are the lowest in the EU 15, and less than half the median price.

However, according to the report, given the different market structures of the various European energy markets; the extent to which they have been liberalised; and the varying fuel mix for electricity and heating between countries; one cannot rely on international comparisons of retail prices when reaching detailed conclusions about the market structure.

4.2 CHANGES IN SUPPLIER COSTS;

The report outlines the impact of environmental costs on the consumer. It highlights the Renewables Obligation (RO) and the Carbon Emissions Reduction Target (CERT). The RO, which requires electricity suppliers to source a proportion of their energy from renewable sources, rose from 7.9% to 9.1% in 2008. In combination, RO and CERT are believed to have added £24 to gas and energy bills in 2008. Network and metering costs have added a further £23.50.

Ofgem has estimated that the cost of energy and margins have been the biggest contributor to rising retail prices – adding £79 to he annual domestic energy bill. Changes in this component have had the biggest impact as it accounts for 70% of gas and electricity bills. Large increases in wholesale prices have fed through to retail prices.

The report notes that the ‘Big 6’ claim to be losing money in their domestic supply businesses, there is evidence, however, that they are making much greater margins on electricity generation. They have also cited rising wholesale prices as the reason for collectively increasing prices in 2008, however, in 2007 Ofgem was required to name and shame two companies who, when wholesales prices were falling in 2007, were reluctant to pass on these reductions to the consumer.

4.3 SWITCHING;

Customers in Great Britain can avail of “switching”. Ofgem argues that consumers can benefit from switching, particularly if they have not switched before. It estimates that customers who have never changed supplier can save on average £125 per annum if they are on a pre-payment meter (PPM), £93 if they are on standard credit and £56 if they are paying by direct debit, by changing both fuels to the best available offers.

4.4 PAYMENT TYPES;

The evidence presented to the Business and Enterprise Committee suggests further savings may be made by changing payment options. Customers on PPM tend to have lower incomes, though they are not necessarily fuel poor. Around 20 per cent of those in fuel poverty pay via PPM – the majority use standard credit. According to BERR’s latest

statistics, bills for those using PPM were, on average, 7 per cent higher than those using direct debit (approx £144 more per year), bills for those on standard payment methods were on average 11per cent higher than DD (approx £89 more each year). The difference between PPM and online direct debit was estimated by Fuel Poverty Advisory Group, to be even higher (approx £250).

Figure 1, published by BERR, presents average UK annual domestic standard electricity bills 2007, across payment type. Figure 2 presents the same information for gas bills. Both diagrams highlight the extra cost of prepayment methods

FIGURE 1: UK ANNUAL DOMESTIC STANDARD ELECTRICITY BILLS 2007[39]

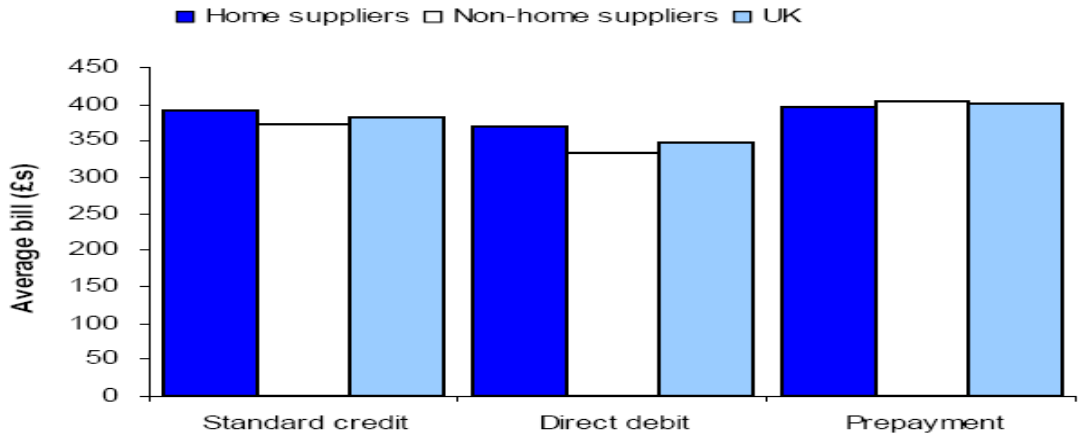
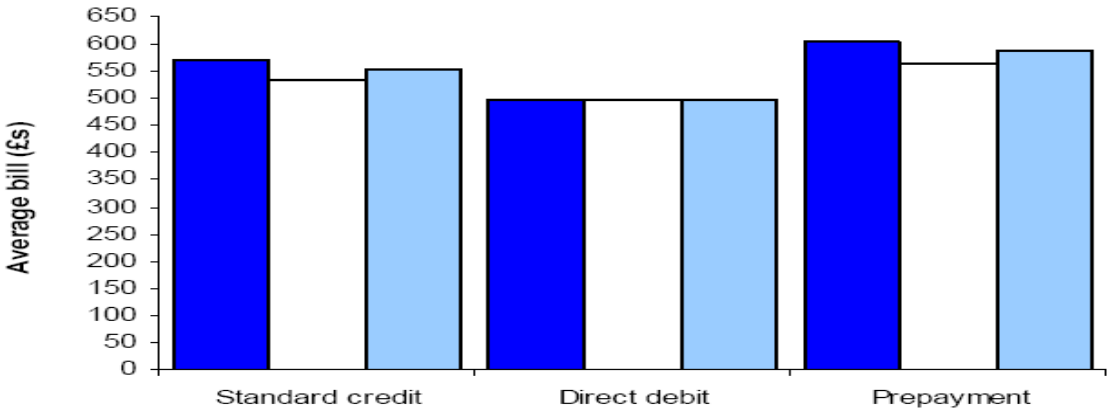


FIGURE 2: UK ANNUAL DOMESTIC STANDARD GAS BILLS 2007[40]



4.5 SMART METERING;

Ofgem in their discussion with the committee stated; “Introducing smart metering for domestic and business electricity and gas customers could help improve customer service, increase energy efficiency, reduce fuel poverty and improve security of supply”.

[39] BERR, Quarterly Energy Statistic June 2008 http://www.berr.gov.uk/files/file46669.pdf (accessed 03/09/08)

[40] BERR, Quarterly Energy Statistic June 2008 http://www.berr.gov.uk/files/file46669.pdf (accessed 03/09/08)

4.6 SME MARKET;

The electricity market for SMEs differs to that of households as firms tend to sign-up for fixed-term, fixed-price contracts whereas domestic customers can leave their supplier after 28 days. The report notes *energy suppliers tend to offer much lower prices to new customers, cross-subsidised by existing customer base which remains relatively static.*

4.7 GREEN TARIFFS;

While providing evidence to the Committee, Energy Watch *expressed its concern over the varying nature of green tariffs currently available…* Electricity suppliers are already legally obliged to purchase a growing proportion of their electriricty from renewable sources through the Renewable Obligation. This is paid for by all consumers*.* Energywatch: some green tariffs are *simply a repackage of this legal obligation* and *that there is a huge amount of fraud* taking place.

4.8 NORTHERN IRELAND

4.8a RETAIL ELECTRICITY MARKET

On 1 July 2008 NIE Energy Ltd announced a 14 per cent increase on all tariffs, with a further announcement expected in September. The increase was attributed to a 100 per cent increase in the cost of the wholesale oil, gas and coal used in electricity generation.[41]

The company remains adamant that the increases do not "increase the profit margin of NIE Energy". They have also made a commitment to the effect that if they are *"able to secure lower cost power during 2009"* they will "*pass this on to customers in the autumn 2009 price review*". [42]

In their previous evidence to the Committee, the Consumer Council noted that with the 14 per cent price rise, energy prices will have risen by 35 per cent compare to last year. They noted too, that people in Northern Ireland pay approximately 7 per cent more for electricity than their counterparts in Great Britain. Figures 3 and 4, provided by NIE Energy show a comparison of European electricity prices and the historic cost of electricity in Northern Ireland respectively.

FIGURE 3: DOMESTIC PRICE COMPARISONS

[41] NIE Energy Pricing Update – 28/08/08
[42] NIE Energy Pricing Update – 28/08/08

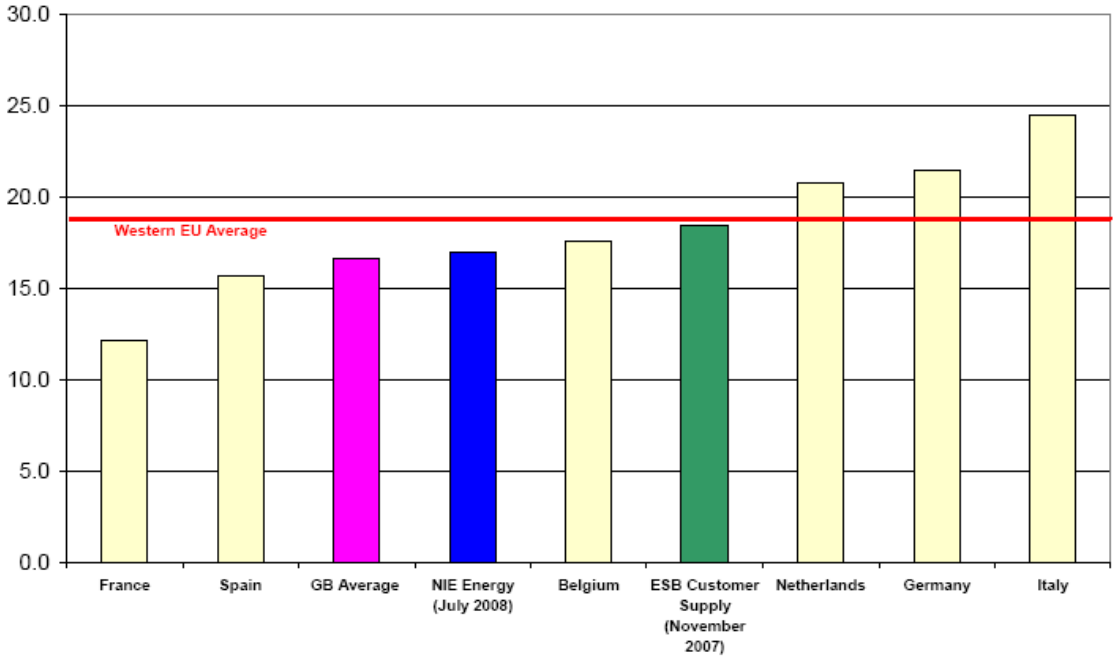
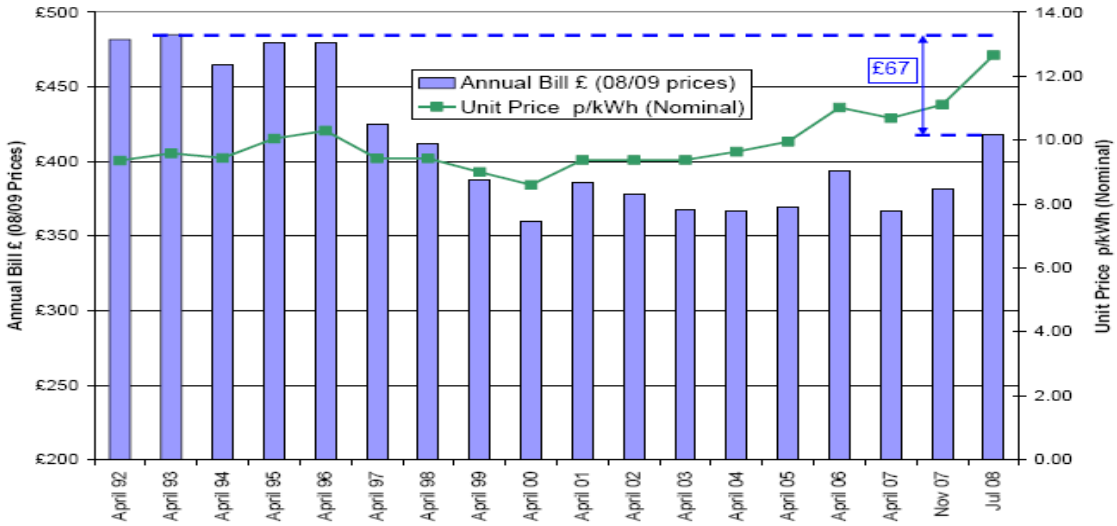


FIGURE 4: NORTHERN IRELAND – HISTORIC DOMESTIC PRICE



Despite the higher prices experienced in Northern Ireland, consumers experience some advantages over consumers in Great Britain, mainly through a more equitable prepay meter system. NIE Energy's keypad system is used by approximately 27per cent of their customers and unlike the rest of the UK the prepay system offers a discount of 2.5 per cent to consumers using it. Direct debit brings a saving of 4 per cent here compared to Great Britain where direct debit payments save consumers 7 per cent on prepay meters and 11 per cent on standard payments.

In relation to the SME market, NIE Energy have stated that *"much of the energy-efficiency activitys targeted at business customers particularly the types of businesses NIE Energy serves, which are primarily small businesses and farms".*

4.8b RETAIL GAS MARKET

Phoenix Natural Gas, Northern Ireland principal supplier of natural gas to domestic customers, announced a 28 per cent price in April 2008.[43] The increase was attributed to increases in wholesale gas prices alone. The company estimate that wholesale gas cost in summer 2008 were 140 per cent higher than they were the previous summer and will be 114 per cent higher this winter compared to last.[44]

The six main gas suppliers in Great Britain have their tariffs in the first and third quarter of 2008. Table 2 shows the latest price increases of each supplier, including Phoenix Natural Gas who, with only one price increase so far this year, falls in the median range of increases.[45]

In the Republic of Ireland, Bord Gais increased their tariffs by 20 per cent on the 1 September 2008, with further increases predicted in January 2009.

From 2008, the average Phoenix Natural Gas bill is expected to be 17 per cent lower than gas bills in the rest of the UK and 4 per cent lower than bills in the Republic of Ireland.

In previous consultation with the Committee Phoenix Natural Gas concluded:

"The single biggest issue that can help push gas prices down is the addition of more gas customers. If the gas base is doubled the operating costs of the business – which are relatively operationally geared – are spread across more customers. At the moment, that is the only way that pressure can be applied to reduce the price of gas for consumers."

Northern Ireland's retail gas market was opened up to competition in 2006.[46] Since then Firmus gas has been awarded licences to supply natural gas and to develop a distribution network, covering 12 towns. To date the firm has been mainly involved in supplying business customers.

TABLE 2: UK GAS SUPPLIER PRICE INCREASES 2008

Company	Increase %	Effective Date
British Gas	35	30-Jul-08
Scottish Power	34	01-Sep-08
Scottish & Southern	29	25-Aug-08
Phoenix Natural gas	28	01-May-08
E. ON	26	22-Aug-08
Npower	26	29-Aug-08
EDF	22	25-Jul-08

[43] Holding the regulator to account over gas prices http://www.belfasttelegraph.co.uk/business/opinion/john-simpson/holding-the-regulator-to-account-over-gas-prices-13878413.html (accessed 03/09/08)
[44] Phoenix Supply Ltd, briefing paper, 04/09/08
[45] Phoenix Supply Ltd, briefing paper, 04/09/08
[46] Phoenix loses gas market monopoly http://news.bbc.co.uk/1/hi/northern_ireland/4662412.stm (accessed 03/09/08)

5 FUEL POVERTY

Fuel Poverty is defined as: households spending in excess of 10% of their income on maintaining an adequate level of heating and lighting.[47]

5.1 RECENT DEVELOPMENTS

Official estimates only run to 2005, though National Energy Action believes UK fuel poverty levels to have now reached around 4.5m.

In May 2008, Ofgem published a *Fuel Poverty Action Programme,* setting out a package of measures to help the fuel poor, including:

- Data-sharing amongst DWP, DEFRA and DERR to enable energy suppliers to better identify the poorest pensioners most likely to be fuel poor;
- The main suppliers have also agreed to increase their collective expenditure on social assistance for their fuel-poor customers from about £50m per annum to £150m per annum by 2010/11

The Fuel Poverty Advisory Group has called these measures "tokenistic".[48]

The Eleventh report States:

Other things being equal, with every 10% increase in energy prices 400,000 people go into fuel poverty. The rise in prices since 2004 means the Government is certain to miss its target of eradicating fuel poverty for vulnerable households by 2010.

It continues:

…in the context of sharply rising prices and reductions in funds for the Warm Front programme… the additional money pledged by energy companies, while welcome, will make very little difference to the overall number of fuel poor households. We believe the government must now consider a fundamental re-think of its approach to tackling fuel poverty.[49]

5.2 SOCIAL TARIFFS

The £50m that the Big 6 have committed to for social assistance is to be spread across a range of different actions including; tax rebates; benefits entitlement checks; and providing energy advice.

[47] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29308.htm (accessed 04/09/08)
[48] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29308.htm (accessed 04/09/08)
[49] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29308.htm (accessed 04/09/08)

All energy companies now provide a social tariff to vulnerable customers, although these vary significantly. British Gas's Essentials tariff charges eligible customers its direct debit rate, regardless of whether they are using standard credit or PPM. Scottish and Southern Energy provide a discount of 20% off customers' existing tariffs.[50]

5.3 RAISING INCOMES

The report notes the main weapon in the government's battle against fuel poverty is the benefit system, particularly the Winter Fuel Payment, which takes the form of a-once-a-year-free payment of between £100 and £300, depending on age and circumstances, for those over 60. Last year 11.7 million people received payments. The 2008 budget announced an additional £50 for households with a member aged 60-79 and £100 for households with a member aged 80 or over.

As a universal benefit the fuel payment is not targeted at the fuel poor. Fuel Poverty Advisory Group has described the payments as "*kind of a Christmas payment*" for pensioners. Interested parties have argued that the payment should be made available to other vulnerable groups including families with children, disabled people or those with a long-term illness.

5.4 IMPROVING HOUSING

Two main initiatives, for improving energy efficiency exist; the CERT, under which suppliers must direct 40% of carbon savings to a priority group of low-income and elderly consumers; and Warmfront, which provides a package of insulation and heating improvements up to the value of £2,700 if gas fired or £4,000 if oil fired. Warmfront is not directed towards the fuel poor and is only available to households on certain benefits.

Recipients of Warmfront have, on average, saved around £300 per year on their heating bills. The scheme is thought to be facing significant challenges:[51]

- Since 2002, the Government has raised the grant ceiling (£2,700) by far less than the rate of inflation;
- As a result the programme has gone from being effectively free at the point of entry to one were recipients are expected to contribute an additional amount too;
- The knock-on effect is that an estimated 16,000 people are currently on the waiting list as they cannot afford the top-up fees;
- From 2008, funding for the scheme has been cut, from £350m in 2007/08 to £295m in 2008/09;
- Funding will further reduce to £270m in 2009/10 and £235 in 2010/11;

[50] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29308.htm (accessed 04/09/08)
[51] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29308.htm (accessed 04/09/08)

- This is despite demand for the scheme being estimated to currently cost £400m.

On the above, the Fuel Poverty Advisory Group (FPAG) has commented:

"The cut in Warmfront is, to put it mildly, difficult to understand - given the programme's success and given the still more pressing need, in the wake of price increases, to improve the energy efficiency of homes and heating systems. The programme has been cut when fuel poverty is at its highest level for nearly a decade."[52]

The report also notes that:[53]

- The FPAG estimates that discounting Winter Fuel Payments for higher tax rate payers could raise an additional £200m, although this is not considered politically acceptable;

- It also said the Government could recycle some of the £400m additional VAT payments it is receiving from energy customers as a result of prices rises. To this the government has responded that increases in VAT payments in one area are often counterbalanced by saving elsewhere;

- A further suggestion is the redistribution of windfall gains made by electricity generators from Phase 2 of the EU Trading Scheme. It has been noted that the government has been auction of permits under this scheme and is receiving substantial gains as a result, gains which could have been maximised had the government chosen to auction of 10% (as is allowed) rather than 7%.

5.5 NORTHERN IRELAND

FUEL POVERTY; the most recent fuel poverty figures for Northern Ireland (2006) place approximately 34 per cent of people in the fuel poor bracket. Figures for the whole of the UK put the level of fuel poverty at approximately 7.3 per cent (2006).[54] Neither of these figures takes into consideration recent price rises.

The Consumer Council has stated, in order to tackle prices:

In the short term, we must bear down on local costs; ensure that grant schemes get to the right people; and consider ways to negotiate at national level the trigger for a special payment to address the scale of increases in energy costs and the peculiarity of the needs in Northern Ireland, especially in relation to fuel poverty".[55]

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[52] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29308.htm (accessed 04/09/08)
[53] Business and Enterprise - Eleventh Report http://www.parliament.the-stationery-office.co.uk/pa/cm200708/cmselect/cmberr/293/29308.htm (accessed 04/09/08)
[54] Fuel Poverty soars close to a ten-year record http://www.guardian.co.uk/business/2008/jan/20/utilities.householdbills
[55] Committee for Enterprise, Trade and Development, Official Report 15/05/08 http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080515.htm (accessed 05/09/08)

The next two sections look at those grants schemes, their take-up and associated problems.

WINTER FUEL PAYMENT; the most recent available figures show that during winter 2006/07, 216,079 households in Northern Ireland received a winter fuel payment, the equivalent to a £50.6 million spend.[56]

Despite this spend the Consumer Council is concerned that *Winter-fuel payments are not being given to everyone who needs them".* They have stated that fuel poverty figures for Northern Ireland show that almost half those in fuel poverty are under 60, 28 per cent work and 23 per cent have children. As a result the winter fuel payment, which is targeted at individuals over 60 years of age, *is not helping those people.*[57]

Further to this, the actual payment itself at £200 is, in the opinion of the Consumer Council *off-kilter.* The group has estimated a more realistic figure of £600, linked to today's oil prices, pointing out that £200 would not fill half a tank of oil and would only be sufficient to provide heating for 72 days.[58]

WARM HOMES; Warm Homes, Northern Ireland's equivalent to Warmfront provides a package of insulation measures up to the value of £850 and heating and insulation measures up to the value of £ 4300.[59] The scheme has been in place since 2001 and has assisted 60,000 homes since its inception. In 2007/08 it provided grants averaging £1,835 to approximately 11,300 households. To date a total of £109m has been spent on the scheme.[60]

In their recent presentation to the ETI Committee the Consumer Council argued that although the scheme impacted upon many people, there remained questions as to whether the scheme was "*being targeted effectively and whether funds are being spent where they are needed".* They added that *"many grants, such as the warm homes scheme, are not been taken up".*

Since the Consumer Council met with the Committee the Northern Ireland Audit Office (NIAO) has published a report outlining their assessment of the scheme. The report concluded there were a number of ways in which the scheme could be improved in order to further assist the eradication of fuel poverty. The report notes;

- the scheme's performance monitoring is simplistic and does not provide a robust measure of performance;

[56] DSD NI Social Fund Annual Report 2006/2007 http://www.dsdni.gov.uk/sf-annual-report-0607.pdf (accessed 05/09/08)
[57] Committee for Enterprise, Trade and Development, Official Report 15/05/08 http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080515.htm (accessed 05/09/08)
[58] Committee for Enterprise, Trade and Development, Official Report 15/05/08 http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080515.htm (accessed 05/09/08)
[59] EAGA Warm Homes Scheme http://www.eaga.com/government_contracts/warmerhomes.htm (accessed 05/09/08)
[60] Warm Homes: Tackling Fuel Poverty: http://www.niauditoffice.gov.uk/pubs/warmhomes/Warm_homes_final.pdf (accessed 05/09/08)

- the scheme's eligibility criteria exclude significant numbers of the fuel poor, while providing assistance to many households who are not in fuel poverty;

- the energy efficient measures provided by the scheme are not sufficient to lift households out of fuel poverty and their impact is negligible;

- the costs of the scheme have increased significantly and in excess of inflation since 2001; and

- independent quality assurance has raised significant concerns about the quality and timeliness of the works completed over a number of years.[61]

To the above it is worth adding the Consumer Council's remarks;

"In a lot of fuel-poor homes, there is heating and lighting, but there is not enough money to allow people to turn on the heating."[62]

In light of these findings, NIAO recommend:

- the introduction of performance management procedure which enable Departmental scrutiny of Warm Homes' contribution to eradicating fuel poverty;

- eligibility criteria should consider how the "non-vulnerable" fuel poor – those in low paid work, near benefit pensioners and others – can be supported ; while excluding those who are eligible under current criteria but are not fuel poor;

- the energy efficiency measure provided by the scheme should be the most effective measures to lift households out of fuel poverty;

- a review of contract management in which the Department (DSD) should consider whether the substantial increase in the cost of measures is justified and whether a different approach to sub-contracting could reduce costs.

[61] Warm Homes: Tackling Fuel Poverty: http://www.niauditoffice.gov.uk/pubs/warmhomes/Warm_homes_final.pdf (accessed 05/09/08)
[62] Committee for Enterprise, Trade and Development, Official Report 15/05/08 http://www.niassembly.gov.uk/enterprise/2007mandate/moe/080515.htm (accessed 05/09/08)