The Consumer Council

Domestic Heating Oil and Fuel Poverty

Introduction

Northern Ireland has the largest percentage of domestic homes using heating oil in Western Europe - with 68 per cent homes (82 per cent in rural areas) using heating oil as their primary heating source. It also has one of the highest fuel poverty levels in Western Europe - The Department of Social Development (DSD) has recently published the latest fuel poverty figures for Northern Ireland showing that 44 per cent of households here were in fuel poverty – meaning that they spend 10 per cent or more of their income on energy.

With such high dependency on heating oil, the price of home heating oil remains a serious issue for many fuel poor households. During December 2010 heating oil prices were on average 30 per cent higher than in December 2009. During the last year, heating oil prices remained volatile; they have fluctuated by as much as £129 (based on a 900 litre fill). Based on average consumption figures a household using oil to heat their homes will spend over £340[1] per year more on energy than a household using natural gas.

The HHO industry is worth £365m[2], yet HHO suppliers and distributors do not contribute to social tariffs which help those who can least afford to pay. All other utility companies pay social tariffs – play their part to eradicate fuel poverty – HHO industry does not.

Heating Oil Industry in Northern Ireland

According to the Northern Ireland Oil Federation there are around 300 oil distribution companies in Northern Ireland, with only 68 of these companies being members of the Northern Ireland Oil Federation (NIOF). Heating oil distributors purchase heating oil from the refiners and importers at prices which change daily due to price fluctuations in world commodity markets.

[1] Based on two 900 litre fills per year priced at £394 each

[2] 68% of houses here (467,614) use HHO heating oil. The average home uses two 900L fills, the average 900L fill in 2010 was £390 (less VAT) = £780 (less VAT) = HHO NI market is conservatively worth approx, - £365 Million.

Though there are numerous suppliers across Northern Ireland, at a local level, especially in rural areas, there is often limited choice. The map below shows the distribution of oil suppliers across Northern Ireland:

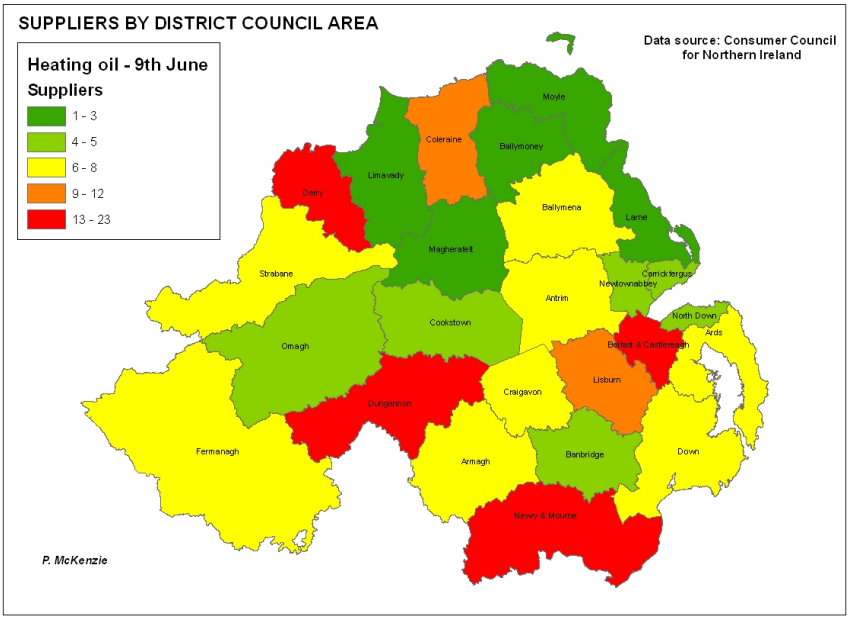


Figure 1: Oil Suppliers by Council Area

(Data Source: Consumer Council. Produced by: University of Ulster)

Moyle, with just one supplier, is the worst served area in Northern Ireland. Moyle also has the highest levels of fuel poverty in Northern Ireland.[3]

Heating Oil Importers

There are four home heating oil importers in Northern Ireland, three in Belfast (BP Oil UK Limited, DCC Energy Limited, NuStar Limited) and one in Londonderry/Derry (LSS Limited).

Most imports of heating oil to Northern Ireland come from the Grangemouth Refinery, via a pipeline terminal at Flint on the River Clyde. BP is by far the

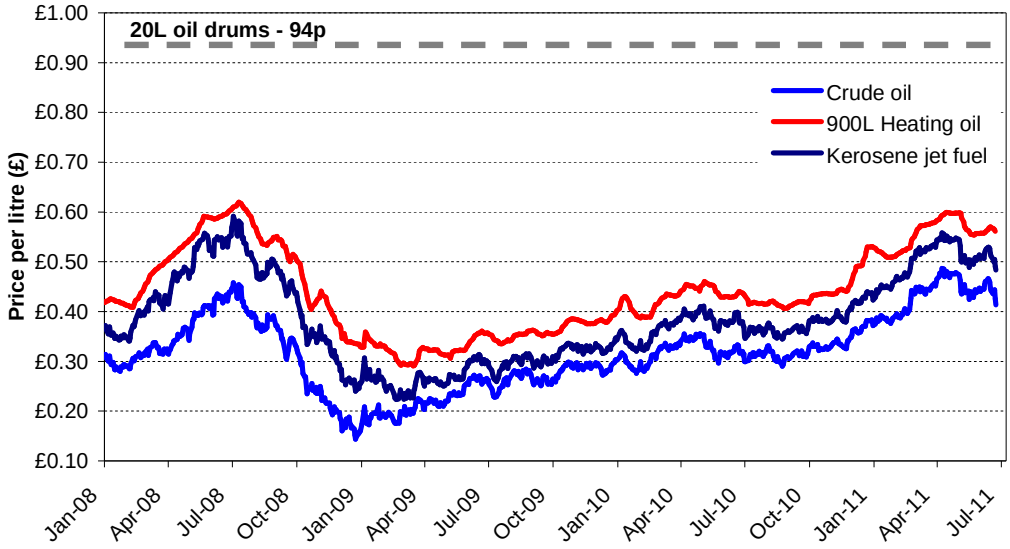
[3] The 2009 interim House Condition Survey did not provide a break down of fuel poverty by council area, instead opting for proposed RPA council areas, therefore more up-to-date comparisons and regional analysis has not been possible, Northern Ireland Housing Executive House Conditions Survey, 2006

largest importer of heating oil into Northern Ireland and they are also the main supplier to the other three importers.

The Cost of Heating Oil

The price of heating oil is determined by the cost of crude oil, the cost to refine the product, the cost to market and distribute the product, as well as the profits of refiners, wholesalers and dealers.

Easily assessable data on oil prices is hard to come by and therefore it is very difficult for consumers to know if they are paying a fair price for the oil that they receive. The Consumer Council monitors the price of home heating oil on a weekly basis across Northern Ireland. Figure 2 shows that the price of Home Heating Oil since January 2009 has reflected the movements in both crude oil and kerosene prices.



Source: Consumer Council, Platts
Note 1: Prices are exclusive of VAT
Note 2: Exchange rate taken into account

Figure 2: The Price of a litre Home Heating Oil (based on a 900 litres fill) compared to Crude Oil and Kerosene since January 2008.

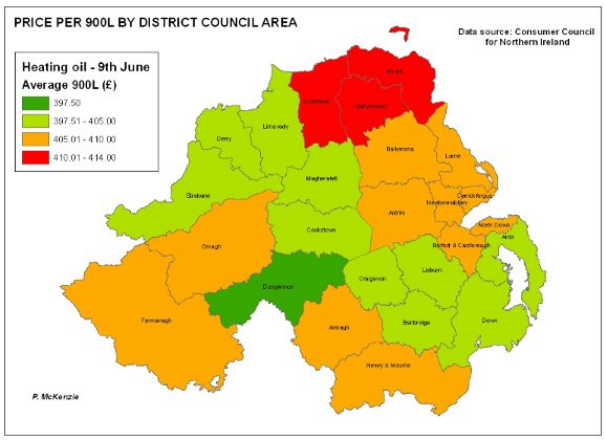
From this data the average difference in the margin between crude oil is 11 pence per litre (ppl) and for kerosene it is 6 ppl (excluding VAT). This margin

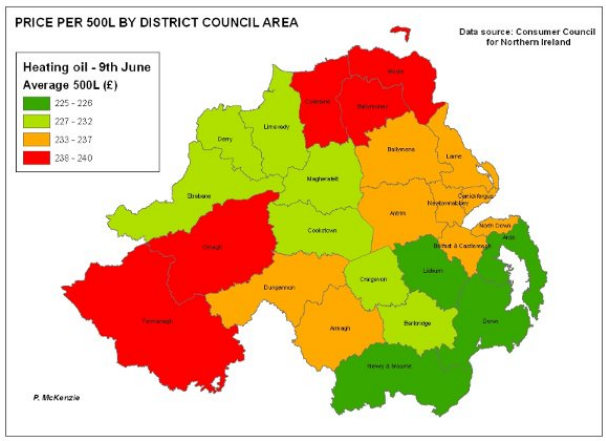
increases if a consumer orders a lower quantity of heating oil (500 and 300 litres).

Anecdotal evidence shows that many customers who cannot afford to get a fill of oil and are left with no option but to use emergency 20-litre drums. These consumers are paying a margin of around 60 pence per litre on crude and 55 pence per litre on kerosene.

In reality, data from our weekly price checks shows that significant premiums are payable for smaller orders and customers in some locations pay prices that are significantly higher than in others. As the maps below show the dearest areas for heating oil change depending on the volume ordered - Moyle with Ballymoney and Coleraine are particularly expensive; with Omagh, Fermanagh, Larne, Antrim and Ballymena being expensive for lower quantities.

The reasoning behind these variances is difficult to ascertain, as according to the United Kingdom Petroleum Industry Association, the underlying costs in providing 300 litres of heating oil are the same as delivering larger quantities (a road oil tanker delivers around 500 litres per minute). In a perfectly competitive market, in the long run, the price, of heating oil would be expected to stay close to, or match, costs.





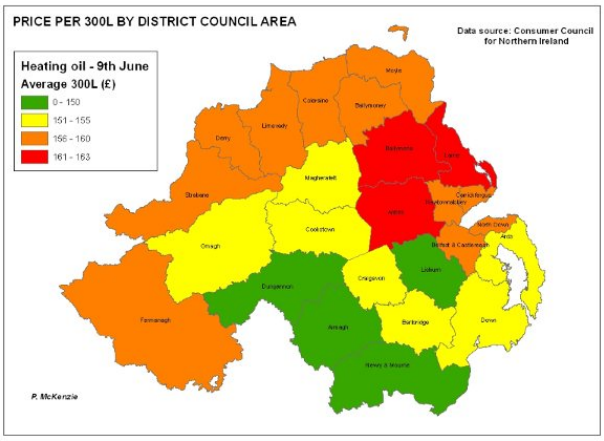


Figure 3-5: The Price of 900/500/300 litres of Home Heating Oil by Council Area.
Data Source: Consumer Council. Produced by: University of Ulster)

Most of the heating oil usage in Northern Ireland occurs in the winter months, between October and March. Whilst some customers, who have the financial ability and large enough storage tanks to store the full amount needed for winter and to beat higher winter prices; the majority of homeowners do not have this option. This majority often have to refill their tanks several times during the winter period and are therefore more affected by the winter price spikes.

Wholesale electricity and natural gas can also suffer from such price spikes but unlike heating oil, where consumers pay on delivery, domestic electricity and gas customers pay for an “annual bill”. This annual bill is averaged over the year taking into account the winter spikes and the summer lows. This price averaging makes it easier for consumers to budget for their energy needs but heating oil consumers, especially those on low or fixed incomes, struggle with the price uncertainty of oil.

Energy Efficiency

There are concerns over the energy efficiency standards of the installation of oil central heating systems. Unlike natural gas, the home heating oil industry does not have the equivalent of the Gas Safe Register, an official body or training organisation for heating oil technicians.

Badly installed or maintained heating systems result in higher heating bills for households. Of the 500,000 homes using oil in Northern Ireland around 80 per cent have older, more inefficient boilers. The Energy Savings Trust has estimated that a typical oil heated 3-bed semi-detached home in Northern Ireland could save £140 per year by replacing their old inefficient oil boiler with a new A-rated condensing boiler.

Fuel Poor and the Heating Oil

No measure to tackle fuel poverty can ignore the role and prominence heating oil plays in Northern Ireland's domestic energy markets. Price rises are likely to continue into the medium term at least – oil prices are projected to remain high or increase as world demand recovers.

There is little prospect of a sustained reversal in the increasing levels of fuel poverty in Northern Ireland, unless the issues surrounding heating oil – our high dependency and its increasing cost – are comprehensively tackled

Possible Ways Forward

1. Regulation

With 68 per cent of households in Northern Ireland using oil as their primary heating source it seems counterintuitive to some that natural gas industry in Northern Ireland, which is only used by 16 per cent of households for their heating needs, has a dedicated Departmental policy resource and is regulated by the Northern Ireland Authority for Utility Regulation, whilst heating oil is not.

Regulation of the oil industry, even if voluntary, would provide home heating oil consumers with a greater level of protection than they receive at this moment and provide a guaranteed minimum social provision. A Regulator could ensure healthy competition and ensure that consumers are paying a fair price for oil.

Regulation would also ensure that that oil companies are correctly investing in their industry so that competitive and efficiency savings can be made. Investment in new technologies and energy efficiency measures will also help in ensuring that the industry plays its fair part in meeting the Northern Ireland's Executive's policy aims of eradicating fuel poverty, protecting vulnerable and rural consumers, promoting sustainability, tackling climate change, etc. Efficiency gains will also help reduce costs to suppliers which in turn should have a knock on effect for the consumer in the form of lower prices and help reduce fuel poverty.

Fuel Poverty levels in Northern Ireland are currently at 44 per cent. All other utility companies in Northern Ireland pay social tariffs which play their part in eradicating fuel poverty. Through regulation the home heating oil industry would make a contribution to eradicating fuel poverty in Northern Ireland.

There is a need to explore the spectrum of regulation that currently exists, how these can be applied and the benefits which they can bring to the oil industry in Northern Ireland and ultimately for consumers.

2. Voluntary Codes of Conduct

Many believe that regulation is unnecessary due to the competitive nature of the oil industry and that it is not apparent that significant benefit could be achieved by regulation.

Therefore, an alternative route could be to develop voluntary codes of conduct with the oil industry or representative trade bodies. This code of conduct

would ensure consumers; especially those in fuel poverty, get the best possible deal and levels of service for their purchase.

3. Extension of the Gas Network and other forms of Heating

As a long-term project, alternatives to oil could be considered. The economic case for the roll-out of the existing gas network was built around the availability of sizeable sources/areas of customer demand; through the Greater Belfast area, Ballylumford, and Coolkeeragh power stations. If the gas network is to be extended to areas where there is less density of population and associated industry, the economics of developing new networks would have to be analysed.

Many rural areas are unlikely to be ever connected to the gas network. Other viable solutions need to be found for these consumers, which could include alternative energy sources such as micro-generation and community type combined heat and power (CHP) projects.

4. Energy Brokering

Research[4] undertaken by the Bryson Group, Consumer Council and the Northern Ireland Housing Executive showed an example in Pennsylvania of a non-profit co-operative with over 6,500 members that has provided savings on home heating oil for 30 years. The scheme works by providing members with prices which are guaranteed to be a fixed margin above wholesale prices, a favourable margin negotiated on behalf of members. The Co-op sets the price and publishes it daily. There is also provision of discount on service contracts and choice of payment terms.

The research also highlighted two of the most popular ways of bulk buying heating oil are:

[4] People Power – Energy Brokering Report (June 2010) – Housing Executive

i. Buying Groups

A buying group is when a group of consumers come together to leverage the group size in exchange for discounts from suppliers. In general they do not have a membership fee and there is no rigid structure. With regard to Home Heating Oil there are some examples of successful buying groups.

ii. Heating Co-operatives

Cooperative societies are run for the mutual benefit of their members with any surplus usually being put back into the organisation.

5. Social Tariff/Energy Rebate

Social tariffs are generally when a utility company is mandated to offer disadvantaged consumers a lower cost for their energy than they would otherwise be paying.

The Westminster Coalition Government has recently consulted on an energy rebate system, to replace social tariffs which would provide consumers with direct assistance for their energy bills. The costs of the policy would be shared fairly between participating energy suppliers, in proportion to their share of the domestic energy market.

However, in Great Britain, the vast majority of households use natural gas to heat their homes, making it relatively easy to form across regulated energy suppliers. In Northern Ireland, with 68 per cent of homes using oil buying from a variety of suppliers, it makes more difficult to develop an assistance programme for disadvantaged consumers.

6. Northern Ireland Oil Schemes.

Steps have been taken by some local Councils and ‘not for profit’ organisations to help consumers pay for the high cost of oil by setting up stamp savings schemes. Through these schemes residents in a specified Council area buy home heating oil stamps, collect them in a savings card and use the value of the stamps to pay for all or part of their next oil order. Stamps are available from specified outlets and can be used with oil suppliers participating in the scheme.

A review of the Belfast City Council pilot Fuel Stamps Scheme indicates a generally positive response to the introduction of the scheme and a seemingly high level of support among users. Despite this there are concerns about the scheme, including the significant security issues of printing and storing the stamps, which are effectively a cash substitute. Consequently the stamps must be subject to high levels of security in terms of printing, handling and storage.