Campaigning for Warm Homes

'What scope is there for the development of a new fuel payment method in the UK?'

A solution for vulnerable energy consumers

Prepared by National Energy Action for the Money Advice Trust
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Esmée Fairbairn FOUNDATION

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EXECUTIVE SUMMARY

In 2003, it appeared that fuel poverty was in decline, and that the measures taken to improve energy efficiency were delivering against the targets set by Government to eradicate fuel poverty. At this time, the price that households across the UK were paying for fuel was considerably lower than today. Since 2003, investment in domestic energy efficiency has continued, however average fuel bills across the UK have increased significantly, negating many of the fuel poverty gains energy efficiency had delivered. Domestic energy bills are not expected to fall to levels comparable with 2003 in the foreseeable future. As a result, fuel poverty has increased to around 5 million UK households, as many struggle to afford the fuel they need. As such, these households are confronted with a dual threat - fuel poverty and a heightened risk of fuel debt.

Many fuel-poor households also experience wider financial and social exclusion, and are often unable to benefit from, or have access to, mainstream financial products. This can result in exclusion from and inability to fully benefit from a competitive energy market. NEA believes that the current failure of the market to fully serve the needs of vulnerable consumers provides a timely opportunity to consider the introduction of a new payment method for fuel.

The main objective of this scoping study, funded by the Money Advice Trust (MAT), was to examine the case for and identify the components of a new payment method for vulnerable households either at risk of or in fuel debt. A series of document and secondary data analysis was undertaken; current fuel payment methods within and outside of the UK were identified and appraised; the function of the competitive energy market and the position of vulnerable consumers within it was examined; and the relationships between fuel payment types, levels of fuel debt, and degrees of consumer risk of fuel poverty were explored.

A potential solution was identified for vulnerable energy consumers, and a model emerged that blends the best elements of existing payment types and services, namely:

1. A simple and accessible cash account
2. Direct debit payments, and the preferential tariffs these open up to consumers
3. Fuel Direct - widening the customer base from just those in debt to those at risk of debt.

This study has identified considerable support for examining the case for an alternative payment method for vulnerable consumers. Consumer groups are calling for the consideration of alternatives to prepayment, improved fuel debt management and fairer tariff structures.

At the time of writing, there are relevant new alliances being formed, such as the Post Bank Coalition, which has set out proposals for the creation of a Post Office network to support local economies and small and medium-size businesses; combat the inequalities inherent in social and financial exclusion; and the introduction of diversity into the retail banking system. In addition, the Saving from Poverty (SfP) initiative proposes that a social enterprise be established to support low-income households with budgeting, to avoid debt, and qualify for service/product discounts via facilitated access to direct debit-type payments.

Further to the initiatives outlined above, the Financial Inclusion Task Force (FITF) has been asked by Government to work with Ofgem and other stakeholders to examine how direct debit use for fuel payments could be improved and how bill payments can be made easier and more affordable.

This study identifies the potential barriers to introducing a new fuel payment mechanism, and makes a considered contribution to how these obstacles might be overcome, who the key 'players' in the development of a model are likely to be, and their role in implementing such a model.

We believe that the proposed model outlined in this paper, will enable consumers to take better control of their fuel bills and empower individuals to take preventative action in order to reduce their risk of fuel debt. This is an issue of strategic concern to the wider agendas of social and financial inclusion.

Key findings include:

Financial inclusion and fuel debt

- Paying for fuel by direct debit is the most common method of payment in Great Britain, and users of this method are more likely to have higher average household incomes and lower average annual fuel bills. Use of standard credit accounts for almost a third of accounts, and PPMs make up around 13% of accounts. Users of PPMs are more likely to have a lower household income and the highest average annual fuel bill when compared those paying for fuel by other means.

- The proportion of English households in 2006 paying by direct debit that were fuel poor was 8.1%; for those paying by PPM it was 14.6%; and for those paying for their fuel by standard credit, 16.1%. Standard credit is also the most popular means of payment among fuel-poor households. More than two-fifths (43%) pay for their fuel in this way.

- Of fuel-poor households, those using a PPM have the lowest average income, and require 16.6% of income to meet their energy needs compared to 18.1% among fuel-poor households paying by standard credit, and 15.3% paying by direct debit.

- Among fuel-poor households, those paying for fuel by standard credit have the lowest average SAP rating[1] and those paying by PPM the highest. Results suggest that PPM users' heightened risk of fuel poverty, resulting from their lower incomes, is moderated by their (on average) more energy-efficient homes. The fact that more than half of PPM users live in social housing, which tend be better maintained and have a higher average SAP rating than private sector homes might go some way to explaining this.

[1] SAP is the energy efficiency rating as determined by the Government's Standard Assessment Procedure (SAP). It is used to monitor the energy efficiency of homes and is an index based on calculated annual space and water heating costs for a standard heating regime. It is expressed on a scale of 1 (highly inefficient) to 100 (highly efficient)

- Not only is paying for fuel by PPM more expensive than other methods, but also those paying by these means have the highest average levels of fuel debt, take longer to repay the debt, and also pay higher amounts towards servicing their debt in comparison with non-PPM users.

- Those with the lowest incomes spend less per week on fuel than their more affluent counterparts, although this expenditure represents a relatively higher proportion of their income.

- The number of calls received by National Debtline concerning fuel debt has increased at a greater rate than calls regarding other debts. Between 2003-2008, the percentage of calls that included enquiries about fuel debt more than tripled, from 2.87% to 9.17% of all enquiries.

Many fuel-poor households face difficult decisions regarding their household budget and the balancing of payments for essential services or products. Difficulties in achieving affordable warmth and incidence of fuel debt are associated with detrimental effects on physical and emotional health, and for those using a PPM the risk of self-disconnection is of considerable concern.

Current options for energy consumers

- The available fuel payment methods identified from an analysis of a selection of EU countries and across the four UK jurisdictions are broadly similar.

- In Northern Ireland, a particular difference has been identified, which relates to fuel prices rather than method availability. For electricity consumers, there is a single electricity tariff across all payment types (apart from economy7 and Standard Time of Day[2]). Those using prepayment receive a discount of 2.5%.

Future energy policy in the UK is likely to be strongly linked to the carbon reduction agenda, which is likely to have a negative impact on affordable tariff levels due to the funding of initiatives that result from these policies being via levies on all domestic fuel bills.

An alternative for vulnerable energy consumers

Components of a new payment method for fuel should:

1. Support an ability to budget
2. Increase financial inclusion
3. Enhance access to mainstream services or services that would allow improved access to the competitive energy market.

- A new payment method should also deliver benefits to energy suppliers in the form of easier account management and lower associated costs, and for the regulator, the facilitation of improved access to the market for vulnerable consumers.

[2] Time of Day (TOD) and Economy 7 tariffs involve metering where the unit price charged varies dependent on the time of day electricity is consumed. The unit price for TOD tends to be more expensive at peak times of use. Economy 7 is an electricity tariff where energy used during the night costs less, per unit, than energy used during the day.

- We propose the creation of a dedicated account operated via multiple service providers such as Credit Unions, providers of Basic Bank Account, and/or an adapted Post Office Card Account (POCA) expanded to provide transactional facilities. The involvement of multiple account operators would broaden and maximise availability to the new payment model on the part of financially-excluded consumers.

The unique aspect of the proposed method is a ring-fenced sub-account, used solely for the purposes of honouring a direct debit fuel payment and where debt exists incorporating an amount for debt repayment.

NEA believes that the risk of fuel debt could be reduced and financial inclusion would be promoted with the introduction of a new payment method adopting the model we detail in this report. Households would be assisted to avoid fuel debt through improved budgeting, access to lower-cost tariffs, and controlled use of a transactional bank account.

Key conclusions and recommendations:

1. We recommend that consideration be given to the feasibility of identified account operators operating in concert to maximise access to a new fuel payment service for financially-excluded people.

2. Further research is required to estimate the amount of arrears that suppliers might recover from consumers under any new payment method, in order to establish the commercial viability of the suggested model. Subsequent research should also examine the legal status of funds held within the sub-account in relation to incidences of insolvency and the classification of recoverable assets.

3. It is recommended that the new payment method be initially limited to consumers either in or at risk of debt and who are also in receipt of means-tested benefits or Tax Credits; and that any extension of the service should be a phased one.

4. A partnership between consumer representative groups, suppliers, the regulator and relevant government departments would be essential to the success of a new fuel payment method.

5. We recommend further investigation into the safeguards necessary to protect vulnerable consumers who may not be familiar with electronic payments and those on fixed and/or low incomes. It is essential that consumers' needs and well-being are central to the development of a new fuel payment method.

6. A dedicated approach is required to assure the service meets the needs of the consumers. A programme of support including energy management and energy efficiency advice should be provided to empower the consumer to reduce their risk of debt and to take responsibility for the management of energy use at home.

Next steps:

It is hoped that this paper will provoke debate and contribute to a growing body of research concerning the improvement of access for vulnerable consumers to the competitive energy market and to wider social and financial inclusion.

NEA will undertake the first phase of a larger study, involving consultation with key stakeholders on the proposed new method developed via this study, with a view to possible future customer consultation and pilot. The consultation will include discussions with key industry representatives, consumer agencies, and government stakeholders.

1. INTRODUCTION

This scoping study, funded by the Money Advice Trust (MAT), examines the case for a new energy payment method to assist vulnerable consumers whom the competitive market has failed, and explores the potential to develop such a mechanism. A new payment method for fuel for those in debt or at risk of debt will help households budget better for the cost of energy, thus reducing the likelihood of accruing fuel debt, and will also release funds to increase the household's disposable income. It will enable consumers to access lower-cost tariffs, i.e., direct debit (DD), and enhance access to the competitive energy market. It will also improve households' ability to achieve affordable warmth through reduced fuel bills and/or reduced incidence of self-disconnection, under-heating, and economising on other essentials such as food and clothing. The proposed method will facilitate consumer choice and control, resulting in increased financial confidence and improved financial and social inclusion.

Section Two of the report begins with a brief review of how the current energy market developed, and summarises government attempts to accelerate progression to a fully competitive market. The section also assesses the role of the regulator, Ofgem, and asks whether a liberalised market can effectively and equitably deliver benefits for low-income vulnerable consumers. This section sets the market context, provides justification for the introduction of a new payment method to the UK domestic energy market, and presents a brief comparison of market operation in the devolved administrations of the UK, the most significant differences being in Northern Ireland where separate energy supply market structures operate.[3]

Section Three examines financial inclusion and fuel debt-related issues, in order to illustrate more clearly the links between financial inclusion and the reduction of fuel poverty, as a means of further validating the need for this scoping study. This section draws together information on current developments and debates relating to improvements to transactional payment services designed to assist disadvantaged consumers, such as direct debit and the expansion of the Post Office network. Information about the profile of consumers in or at risk of fuel poverty, the payment methods they use, and their propensity to accrue fuel debt, is also provided to identify those who would be most likely to benefit from the introduction of a new payment method.

Section Four offers a summary appraisal of the current payment options available and consumer protection regulations applying both within the UK and, where identified, in other countries. The implications of future energy policy are also briefly considered here.

Section Five presents a model for a potential new energy payment method. The components of such a model have been identified via this current study, in its assessment of the current market and the position of vulnerable consumers within that market.

[3] Northern Ireland currently has two domestic gas suppliers and one electricity supplier. Domestic energy customers in Northern Ireland cannot currently switch their supplier of either fuel.

The report closes with key conclusions and recommendations, including options for future research and the details of a consultation exercise for which NEA has secured funding.

Methods

The study, primarily a desk-based exercise, included document and secondary data analysis. A broad and comprehensive review of recent literature and other relevant available resources was undertaken in order to identify and appraise current fuel payment methods offered by domestic energy suppliers in the UK.

Secondary analysis of the English House Condition Survey (EHCS) 2006; National Debtline data; and Office for National Statistics (ONS) Family Resources and Expenditure data sets was conducted, in order to capture information about current fuel payment methods and how they are used by consumers, levels of fuel debt, and degrees of consumer risk of experiencing fuel poverty. An assessment was also made of the types of household that could potentially benefit from a new payment method.

It should be noted that data was not always available at UK and GB level, and where data relating to individual jurisdictions within the UK have been used to illustrate a point, this is signposted.

Outputs from the study include:

- Review of fuel payment methods
- Policy, regulatory and market review with reference to payment methods and wider financial exclusion issues relating to fuel debt
- A potential model or descriptive framework for a new payment method suitable for the UK domestic market, which could potentially replace Fuel Direct or act as an alternative to Pre-payment meters (PPMs) for low-income households and/or those with fuel debt
- Identification of key stakeholders to be approached in relation to future consultation and potential membership of a steering group to support a future larger-scale study.

Outcomes of the study are intended to include:

- An improved understanding of the political, regulatory and market conditions necessary to support the introduction of new payment method
- Recognition both of the potential barriers to introducing such a mechanism and improved understanding of the role of key 'players'
- Enhanced understanding of the profile and needs of consumers who would be most likely to benefit from a new payment method
- Support for the creation of an environment within which to pilot a potential new payment method and for testing this with consumers and key stakeholders concerned with fuel poverty and fuel arrears, e.g. suppliers, Ofgem, government departments and consumer organisations.

2. THE UK ENERGY MARKET AND VULNERABLE CONSUMERS

Deregulation of the UK energy retail markets developed progressively between 1996 and 1999. One of the primary aims of liberalising the market was to introduce competition and consumer choice. The process involved opening up the market to allow consumers a choice of more than one supplier, and the removal of domestic price controls. This was a gradual process, with price controls first being removed for direct debit customers in April 2000. Price controls were retained for prepayment and standard credit (SC) customers. In April 2002 all remaining domestic energy price controls were completely removed[4].

Ofgem was established as the industry regulator by the Utilities Act 2000. Government provided guidance[5] that prescribed the responsibilities of the regulator in relation to social issues, including equal access for all consumers to competitive markets and the desirability of lower levels of disconnection and arrears. The Act also imposed a responsibility on Ofgem regarding consumers' interests in relation to affordable energy. In 2000, Ofgem's first Social Action Plan was produced, with a specific brief to address the needs of vulnerable consumers.

The objective of Government was to ensure that the economic benefits of liberalisation were spread evenly amongst all consumers, including the most vulnerable[6]. To this end, Ofgem has regularly reported suppliers' compliance with their statutory social obligations and continues to monitor suppliers' performance in relation to debt, disconnection and payment methods. More recently, Ofgem has issued guidance on social tariffs[7], and taken forward the agenda on financial inclusion. Ofgem states that its duty to protect the interests of vulnerable consumers should be fulfilled "*where appropriate by promoting effective competition*".

There are several definitions of vulnerability, and these are often used interchangeably when discussing consumers in relation to their energy use and engagement in the energy market. The three main definitions are:

1) '**Vulnerable in relation to fuel poverty**'. A household is considered vulnerable in relation to fuel poverty where there is a member aged 60+, there is a child under the age of 16, or where there is a member of the household with a limiting long-term illness or disability. This definition is used by Government for the purposes of targeting fuel poverty assistance and setting fuel poverty targets. Around 80% of the fuel poor are considered vulnerable according to this definition.
2) '**Vulnerable in relation to income**'. A household is considered vulnerable in relation to income if it is in receipt of a means-tested benefit.
3) '**Vulnerable in relation to the energy market**.' This is a less well-defined conception of vulnerability, but is usually taken to mean any household that might be considered vulnerable based on their status in relation to fuel poverty and/or low income (as defined above), and other characteristics that might prevent them from engaging successfully in the market. This is the

[4] Ofgem (2008) Energy supply probe – initial findings report
[5] DTI (2004) Social and environmental guidance to the gas and electricity markets authority.
[6] OFFER/Ofgas (1999) Social Action Plan – discussion paper
[7] A Social Tariff is defined by Ofgem as a tariff equal to or less than the best market offer offered by an individual supplier.

definition that Ofgem typically uses, and the one to which this report refers when describing vulnerable consumers and the market.

The following paragraphs will examine the extent to which competition can and does protect vulnerable consumers and, in cases where the market is exposed as failing, will explore the role of the regulator and how regulation might be strengthened or otherwise improved.

2.1 From regulation to deregulation

In England, Scotland and Wales, the fourteen existing regional electricity suppliers entered the gas market and the single gas incumbent entered the electricity market between 1996 and 1999. By 2003, six main suppliers of gas and electricity had emerged through a process of mergers and acquisitions. Smaller suppliers have entered and exited the market, never achieving more than 1% of market share[8]. Northern Ireland's energy market is significantly different to the rest of the UK, and is discussed separately below.

Since liberalisation, not only have GB suppliers been able to introduce new and varying pricing structures, but new tariffs and payment methods have also emerged. Generally, GB suppliers have a single tariff for each payment method in each supply area, whereas in Northern Ireland a single electricity tariff applies across all payments types. Each supply area (as shown below) is a defined geographical area, and represents a vestige of the period before deregulation, when electricity supply was monopolised on a supply-area basis, and a national monopoly was held by British/Scottish Gas.

Picture 1: Electricity supply areas before deregulation (Source: saveonyourbills.co.uk)

[8] Davies, S & Waddams, C. (2007) Competition policy and UK energy markets. Consumer Policy Review. Vol 17, (1)

As Ofgem identified in its recent Energy Markets Supply Probe (2008), one of the reasons that more vulnerable consumers are unable to benefit fully from the market is their propensity to remain with the incumbent[9] gas and electricity supplier for their supply area, rather than switching to a cross-area supplier. As such they potentially pay an in-area premium for their electricity supply. This in-area premium has also been identified as a particular problem for those without access to mains gas, as these consumers are also unable to access and benefit from dual fuel tariff discounts.

According to Ofgem (2008), Scotland and Wales have the highest incidence of consumers remaining with the original incumbent electricity supplier, and supply contracted from British/Scottish Gas is as high as 80% in some areas.

Across Great Britain, 16% of energy accounts are not connected to the gas main, and 60% of this segment of the market remain with their previous electricity incumbent, and 15% with British Gas. The market share held by the previous incumbent suppliers has been slower to erode amongst non-gas households than other segments of the market.

It could be argued that after ten years of a deregulated market, this 'monopoly effect' created by consumer inertia in the market hinders competition, which might be stimulated through more active consumer switching. Davies & Waddams (2007) argue that market conditions such as the requirement to publish tariff schedules and prices, although intended to reduce consumer search costs, means that suppliers are well aware of what their competitors are doing, and thus can respond to their rivals' price changes quickly (within 28 days). Conversely, the requirement for price transparency could also create a 'cartel effect', in that suppliers, being able to observe the behaviour of other companies, , do not need to actively compete and can keep prices at a comparable (and high) level unjustifiably above cost, yet without overt collusion.

However, maintenance of 'reasonable' price above cost is not true for all payment methods. Evidence presented by Ofgem (2008) suggests that some online direct debit tariffs are too low to be cost-reflective, being driven by customer acquisition, whereas prices associated with standard credit accounts appear too high to be cost reflective. Relative to direct debit accounts, the average standard credit account costs £37 per year to provide and administer compared with an average per customer charge of £80.

According to Ofgem, the price differential charged to prepayment customers appears to be more justifiable, due to the higher costs associated with PPM accounts, with the average cost being around £88 more than for direct debit accounts (based on dual fuel supply figures). However, there is an element of the current price differential that remains unjustified. A report by the Centre for Sustainable Energy (CSE)[10] identified the 'cherry picking' of direct debit customers, and concluded that an open market could not fully meet the social needs of

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[9] In this context, an 'incumbent' supplier is the previous electricity supplier that held a monopoly supply in a specific supply area prior to the deregulation of the market. The pre-deregulation incumbent supplier for gas was British/Scottish Gas, which held a gas supply monopoly across GB until deregulation. After deregulation, suppliers could offer products across supply areas, and electricity suppliers entered the gas market.

[10] CSE (2001) Competition Monitor. Eaga Charitable Trust

consumers. The report also supported the view that the current lack of pricing competition between companies and continuing intra-supplier tariff differentials are regarded by many as evidence of market failure, and argued for improved provision for low-income consumers' access to the energy market.

Much recent focus has been on price differentials between payment types, with less scrutiny being applied to price differentials between supply areas. Ofgem reported that, since 2003, the average differential (between in and out-of-area customers of the same supplier) charged until recently by the five former incumbent electricity suppliers to in-area[11] customers after adjusting for network charges was 10%, narrowing to 6% after the price increases of 2008. Ofgem stated that they could not find any cost basis for the premium, nor is it found in gas supply. In March 2009, Ofgem unveiled a package of new rules for energy suppliers, which is intended to give consumers more power and help remedy the failings of the retail market.

Since the Ofgem probe was announced, suppliers have taken steps to narrow their in/out-of-area price differentials for electricity customers across all payment methods. After taking account of differences in network charges between regions, average differentials for direct debit customers have fallen from 13% in January 2008 to 5% after the latest round of price decreases. The average differential between in-area and out-of-area electricity prices also decreased for customers paying by standard credit, from 12% to 5%, and for prepayment customers, from 9% to 4%[12].

Ofgem proposes that unjustified price differences should be prohibited, and that those consumers previously excluded from the benefits of the market can be better served and informed via improved billing methods and formats. The National Housing Federation[13] is currently investigating UK energy companies that charge unjustified prices for fuel in terms of potential breach of EU regulations. Ofgem has stated that it is introducing new regulations in this area, in order to better reflect EU directives and to address detriment caused to consumers. Under two EU directives, member states must ensure that any difference in terms and conditions reflect "*the costs to the supplier of the different payment systems*". However, there is some worry that direct controls in a competitive environment could distort the market, with unforeseen outcomes. For example, if, as a means of disciplining the market, a requirement were imposed on suppliers to ensure cost-reflective tariffs, some prepayment customers might end up paying more than they currently do[14].

NEA believes that the current failure of the market to serve the needs of vulnerable consumers makes it timely to consider the introduction of a new payment method. Most fuel-poor and vulnerable households currently pay for fuel by standard credit. It is also true that, whilst most of those using prepayment are not fuel poor, a prepayment meter remains a more costly payment method, even after unjustified price differentials are removed. It is ironic that when households fall into fuel debt, they are moved onto one of the most expensive tariffs (a PPM) to repay that debt. As such, there is a strong case to be made that vulnerable and low-income households either in or at risk of fuel debt require an alternative payment option

[11] In area: Consumers who have stayed with their incumbent electricity or gas supplier.
[12] Ofgem (2009) Addressing undue discrimination. Impact assessment.
[13] National Housing Federation Press Release 15th June 2009.
[14] Catherine Waddams (2008) Centre for Competition Policy, University of East Anglia, Norwich.

that more adequately addresses their circumstances than the methods currently available.

2.2 Devolved administrations

The markets in Scotland and Wales have distinct characteristics, although they operate according to the same overall market system as England. As referred to above, in Scotland and Wales up to 80% of customers remain with their former incumbent supplier. A higher proportion of homes in Scotland and Wales also have no access to mains gas than in England; 33%[15] of households in Scotland and 19%[16] in Wales have no access to mains gas, compared with a figure of 12% in England[17].

These two elements combine to put many households in Wales and Scotland at a disadvantage in the competitive market. Households are particularly influenced by the national branding of the previous incumbent suppliers and, as a result, a considerable proportion pay an in-area premium. Secondly, households that have no access to gas are unable to access lower-cost dual-fuel tariffs, and as a result will pay more than consumers with access to a dual-fuel tariff.

The energy market in Northern Ireland was opened up to competition in 2007. However domestic customers are still unable to switch their gas or electricity supplier, as there are no alternative suppliers to Phoenix Gas and Northern Ireland Electricity trading in the domestic market. In 2007, the Single Electricity Market (SEM) was created, with the intention of supporting competitive benefits, which, to date, have yet to be delivered. Further, domestic price increases of around 47% for both gas and electricity have been imposed since market opening.

Scottish & Southern Energy has obtained a supply licence, but is yet to enter the Northern Ireland market, with some observers indicating that this is because the market is not yet big enough. This raises the further question of whether competition would be appropriate at all for the Northern Ireland market. The Utility Regulator (separate from Ofgem and operating solely in Northern Ireland) is currently considering how to introduce competition to the domestic market and states that "*the principal objective of the Utility Regulator is to protect the interests of consumers* [of electricity] *supplied by authorised suppliers, wherever appropriate by promoting effective competition".*

Only one electricity supplier and two natural gas suppliers currently supply the domestic market. Northern Ireland Electricity Energy (NIEE) is the sole electricity supplier. The two gas suppliers operate across different areas: Phoenix Natural Gas operates only in the Greater Belfast and Larne areas, while Firmus Energy holds an exclusive licence to supply gas in Antrim, Armagh, Banbridge, Craigavon, Newry, Ballymena, Ballymoney, Coleraine, Limavady and L/Derry. Firmus currently supplies social housing (Northern Ireland Housing Executive) and private sector new build properties.

During 2008, Northern Ireland consumers experienced massive fuel price increases, averaging c. 47% for both gas and electricity. It could be argued that the current

[15] Energy Action Scotland (http://www.eas.org.uk/index.php?page_id=83)
[16] Welsh Assembly Government (2007) Fuel Poverty in Wales 2004
[17] EHCS 2006 ('No gas used in home' used a proxy for 'off mains gas' – same proxy used in Wales).

condition of the market in Northern Ireland, together with a high (72%) incidence of oil use for central heating, have contributed to the highest incidence of fuel poverty of all UK jurisdictions. In 2009, it was estimated that fuel poverty affected almost two-fifths of households in Northern Ireland (almost 250,000 households).

The table below presents a comparison between average electricity prices in Northern Ireland (NI), the Republic of Ireland (RoI), and Great Britain (GB) between 2004 and 2007.

Table 1: Comparison of electricity costs between NI/GB/RoI 2004 - 2007 (Source: NIE)[18]

Domestic prices based on 3300 kWh pa)		**pence/kWh**	**vs. NI %**
2004	NI	10.1	
	GB**	7.9	-2.2%
	RoI	10.3	+2%
2005	NI	10.4	
	GB**	8.6	-17%
	RoI	11.7	+13%
2006	NI	11.6	
	GB**	10.5	-10%
	RoI	12.0	+3%
2007	NI	11.2	
	GB**	11.2	Nil
	RoI	13.5	+20%
Nov 2007	NI	11.7	
	GB**	11.1	-5%
	RoI	12.7	+8%

** Great Britain average
Exchange rate used for RoI was 1€ = £0.68

The table shows that Northern Ireland's average electricity prices were considerably higher than GB figures until late 2007. Since then, both GB and Northern Ireland domestic fuel prices have risen substantially. However, no price comparison for this more recent period is currently available. In 2006, the average required fuel spend amongst Northern Ireland's fuel-poor households was in excess of £1,600, with the average fuel-poor household needing to spend 15.5% of their income to achieve an adequate level of warmth in their home[19].

[18] Department of Enterprise, Trade and Investment Northern Ireland (2008) Review of the 2004 Strategic Energy Framework for Northern Ireland.
[19] Northern Ireland House Condition Survey 2006.

3. FINANCIAL INCLUSION AND FUEL DEBT

Fuel poverty is commonly defined as a situation where a household is required to spend more than 10% of household income to meet all its energy needs. Energy needs include space and water heating costs required for a standard heating regime, based on minimum standards set by the World Health Organisation (WHO)[20].

There are three primary determinants of fuel poverty, namely:

1) Low household income
2) Poor heating and insulation standards
3) High fuel prices

Fuel poverty is principally tackled by addressing the first two issues through programmes of energy efficiency and heating improvements, and income maximisation via benefit entitlement checks. High fuel prices are more difficult to control, and there are limited tools available to control them within a competitive market. Consumer groups and voluntary sector organisations, including NEA, actively campaign to ensure that all households can fully and equally participate in the market and are able to access the best tariffs available.

NEA estimates that there are over five million fuel-poor households in the UK in 2009. Around 3.7 million of these households are in England, over 800,000 in Scotland, over 300,000 in Wales, and almost 250,000 in Northern Ireland.

Many low-income and vulnerable households also experience financial and social exclusion. Such exclusion means that consumers are often unable either to benefit from, or have access to, mainstream financial products. In some cases, poor literacy levels act as a barrier to general financial inclusion.

Many households are excluded from achieving affordable warmth due to personal as well as financial circumstances. Such personal circumstances can range from the presence of young children or individuals with an illness or disability, both of which can result in increased heating needs for longer periods of time or greater requirements for hot water for the purposes of washing and personal hygiene. Those with an illness or disability can also have increased demands on their household budget associated with travel and medical or mobility equipment.

Households experiencing fuel poverty are often more likely to experience wider social exclusion as well as poor health and wellbeing. Inability to afford enough energy to heat the home can have a detrimental effect on children's educational achievements. Children in fuel-poor homes are less likely to have a warm room in which to study, and may also experience social isolation based on a reluctance to invite friends home.

A recently-published study[21] that explored the impact of fuel poverty on human health, found that impacts were more significantly associated with mental health amongst adults and adolescents than physical health. Negative physical health impacts were found to be more significantly associated with younger children,

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[20] WHO set minimum standards for heating as 21°C in the primary living area and 18°C in the secondary living area.

[21] Liddell, C. (2009) Tackling Fuel Poverty and impacts on human health: a review of recent evidence. University of Ulster.

especially relating to infants' poor weight gain, hospital admission rates, and developmental status, as reported by carers.

In 2006-07, 13.2 million people in the UK were living in income poverty[22], representing around 22% of the population. Around 16% of working age adults have literacy levels below that expected of an eleven-year-old, and 46% have poor numeracy levels. Around 5% of UK adults (2.1 million) have no bank account, rising to almost one in ten in Wales, according to the Welsh Consumer Council (2008).

The Extra Help Unit of the Welsh Consumer Council (now operating as Consumer Focus Wales) found that the primary causes of many of the problems encountered by their clients were debt related, and in particular were linked to the means by which debts were recovered. These methods included unaffordable or otherwise unsuitable payment plans, inappropriate debt recovery practices, incorrect tariff and debt recovery rates set on PPMs, failure to adhere to correct procedures before disconnecting or installing a PPM, and delays in issuing a PPM payment card.

Consumer Focus Wales is calling for fairer pricing and tariff structures for the better management of fuel debt, and access to accurate advice and support, to help ensure that customers do not get into debt through poor supplier practices. It is felt that an alternative to PPMs should be considered as a debt management mechanism. A current alternative across the UK is Fuel Direct, however it suffers from very low levels of take-up[23]. It is believed that a better model, incorporating advice, signposting to other services that can offer assistance with associated problems, and payment flexibility built in to allow households to control their budget, should be considered[24].

The Financial Inclusion Task Force (FITF) has a remit that covers the Government's strategic priorities to improve access to banking, affordable credit, money advice, savings and insurance. FITF has been asked by Government, as part of the wider Home Energy Savings Programme (HESP[25]), to work with Ofgem and other stakeholders to examine how direct debit use for fuel payments could be improved, and how bill payments can be made easier and more affordable for vulnerable consumers[26].

In recognising the strong link between the promotion of financial inclusion and tackling fuel poverty, the FITF is conscious of the need both to be sensitive to the needs and requirements of this segment of consumers, and to avoid the introduction of systems that could add extra pressure on their ability to manage financially and avoid over-indebtedness. FITF recognises that it is important for low-income and vulnerable consumers to maintain control over their finances, including the amount they pay for fuel and the frequency of payments. However, a particular concern addressed by the FITF is that making direct debit payments more attractive to one segment of consumers may be 'compensated for' by increasing the cost of other payment methods.

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[22] Poverty defined as <60% median income.
[23] Less than 0.5% (<50,000) across all GB households in 2008 and <2,700 (approx.) in Northern Ireland.
[24] Consumer Focus Wales (2009) Debt and disconnection in Wales
[25] Home Energy Saving Programme announced by Government September 11th 2008.
[26] Financial Inclusion Taskforce (2008) Report on Direct Debit energy payments.

A Business, Enterprise and Regulatory Reform (BERR)[27] Select Committee inquiry into Post Offices considered a potential role for the Post Office network in promoting financial inclusion and tackling fuel poverty via expansion of access to direct debit services. The Committee concluded[28] that although opportunities to open bank accounts have increased over recent years, there is more work required to promote the use of transactional facilities. It did, however, note that direct debit may not be suitable for all, particularly those whose pattern of income is inconsistent, creating a need to budget on a weekly or fortnightly basis. The Committee's discussions also touched on the potential of the Post Office Card Account (POCA) to aid financial inclusion.

The POCA is currently set up to only receive benefits, Tax Credits and state pension payments. The current structure of the POCA therefore does not attract/impose charges associated with accounts that allow more complex transactions. Enabling the POCA to facilitate fuel payments would require additional account functionality for those requiring access to direct debit and consideration would have to be given to the potential implications of introducing charges associated with debits being drawn from accounts with insufficient funds to honour them.

Paying for fuel by direct debit is the most common method of payment in Great Britain, accounting for 24.1 million (50%) of accounts (gas and electricity accounts are counted separately). Use of standard credit accounts for 15.4 million (32%) of accounts, and PPMs make up 6 million (13%) of accounts[29]. The number of prepayment accounts has increased by 165,000 since 2004[30]. Examining fuel payments in terms of average consumer income and payment type shows that those using direct debit to pay for fuel have an average income of £28,600, compared to an average income of prepayment users of only £17,400.

While there is a consensus that PPM use is not of itself a good indicator of fuel poverty, it is clear that those using PPMs tend to have lower than average incomes and a lower average income than any other group paying by alternative means. Although there is no data available regarding the income of those using online direct debit, it is anticipated that the average income of this cohort would be equal to or slightly higher than that of consumers using standard offline direct debit.

It should also be noted that consumers using online direct debit have the lowest average fuel bill, of around £1,065 per annum, in comparison with the average paid by PPM users of £1,254 and standard credit payers of £1,237.[31] The table below illustrates that consumers using a PPM are more likely to be low-income households and, as such, at greater risk of fuel debt as well as having a very slightly higher fuel poverty index[32](FPI) than standard credit households.

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[27] Now the Department for Business, Innovation and Skills (BIS).
[28] Ofgem (2008) BERR Committee Inquiry into Post Offices - securing their future. A memorandum by Ofgem
[29] Ofgem (2009) Monitoring Company Performance: quarter 3 2008
[30] Ofgem (2008) Energy supply probe – initial findings report
[31] Whilst not based on detailed energy consumption, the figures are based on average consumption of dual fuel consumers living in a 3 bedroom house.
[32] The proportion of income 'required' to meet energy needs for warmth and well being.

Table 2: Average fuel bills, household income and tariff differential by payment method					
Payment method	Average fuel bill[1]	Average income[2]	Average FPI[3]	PPM differential	Std Credit differential
Online direct debit	£1,065	not available	not available	£193	£171
Standard direct debit	£1,157	£28,610	5.1%	£97	£80
Standard credit	£1,237	£23,550	7.0%	£9	
Prepayment meter	£1,254	£17,430	7.1%		£9

1 Based on average consumption of dual fuel customers in a 3 bed home (NEA April 2009 estimates)
2 Full income definition rounded to nearest £10 and based on electricity payment method England only (EHCS 2006)
3 Fuel Poverty Index England only – income includes housing subsidies (EHCS 2006)

Northern Ireland does not experience the same anomaly as the rest of the UK with regard to non-cost reflective differentials between payment types. In Northern Ireland, there is a single electricity tariff across all payment types (apart from economy7 and Standard Time of Day[33] metering, which is not well promoted). Average reductions are applied to both PPM and direct debit accounts, of 2.5% and 4% respectively.

According to the EHCS 2006, 11.5% of households in England were fuel poor. For English households paying by direct debit, the proportion that were fuel poor was 8.1%; for those paying by PPM it was 14.6%; and for those paying for their fuel by standard credit, 16.1%. A greater proportion of the fuel poor also pay by standard credit, around 43%.

Exploring this further, and investigating **fuel-poor households only**, those using a PPM have the lowest average income (£8,510) compared with an average income of £9,860 among direct debit-paying households, and £9,040 among those households paying by standard credit. The FPI of these groups, that is the proportion of their income required to meet their energy needs, is fairly high, the average for fuel-poor households being 16.8%. The highest FPI is for fuel-poor households using standard credit, at 18.1%, followed by PPM users at 16.6%. Fuel-poor households using direct debit have an average FPI of 15.3%.

To ascertain why those paying by standard credit appear to be most at risk of more severe fuel poverty, we can turn to the other primary determinant of fuel poverty, poor energy efficiency. Fuel-poor households paying for their fuel by standard credit have the lowest average SAP[34] rating, only 35. For those paying by direct debit it was 37, and those paying by PPM had an average SAP rating of 40.

[33] Time of Day (TOD) and Economy 7 tariffs involve metering where the unit price charged varies dependent on the time of day electricity is consumed. The unit price for TOD tends to be more expensive at peak times of use. Economy 7 is an electricity tariff where energy used during the night costs less, per unit, than energy used during the day.
[34] SAP is the energy efficiency rating as determined by the Government's Standard Assessment Procedure (SAP). It is used to monitor the energy efficiency of homes and is an index based on calculated annual space and water heating costs for a standard heating regime. It is expressed on a scale of 1 (highly inefficient) to 100 (highly efficient). The average SAP rating across all English households is 49.8 (2007).

Table 3: Fuel poverty, average household income and energy efficiency by payment method (Source: EHCS 2006)				
Payment method	% hhs in fuel poverty	Average income of fuel poor hhs	FPI of fuel poor hhs	Average SAP of fuel poor hhs
Standard direct debit	8.1%	£9,860	15.3%	37
Standard credit	16.1%	£9,040	18.1%	35
Prepayment meter	14.6%	£8,510	16.6%	40

These results suggest that, for PPM users, a heightened risk of fuel poverty caused by lower incomes is tempered by (on average) more energy-efficient homes. This might be explained by tenure, in that it is expected that those living in the private sector are more likely to live in housing with poorer thermal efficiency than those living in social housing.

More than half (57%) of all households using a PPM to pay for their electricity, and 61% of those using a gas PPM, live in the social sector, with an average SAP of 57. Almost half, 45%, of all social tenants use an electricity PPM and 35% a gas PPM. More than 90% of direct debit users of both gas and electricity live in the private sector, and more than 80% of these are owner-occupier households, the average SAP in the private sector being 47. For fuel-poor households living in the private rented sector, the average SAP rating is only 31 compared to 47 across all private renters. Just over 80% of gas and electricity standard credit households live in the private sector and, again, the majority are owner occupiers.

Table 4: Payment method per fuel by tenure (Source: EHCS 2006)							
Tenure	% all electricity PPM users	% all gas PPM users	% all electricity DD users	% all gas DD users	% all electricity Std Credit users	% all gas Std Credit users	Average SAP all hhs (fuel poor hhs)
Owner-occupier	27%	25%	85%	86%	67%	68%	47
Privately rented	16%	14%	8%	7%	14%	12%	47 (31)
All private sector	43%	39%	**93%**	**93%**	**81%**	**80%**	47
All social sector	**57%**	**61%**	7%	7%	19%	20%	57

These results support the view that, despite their lower average incomes, PPM customers are, to a degree, protected from the extremes of fuel poverty due to their tenure. Yet those living in private sector homes, especially the private rented sector, are likely to be living in less energy-efficient properties, and those with low incomes are at the greatest risk of fuel poverty. To illustrate this, the FPI of all fuel-poor households in England living in the social sector is 15.3%, compared with 17% in the private sector, while privately-renting households have an FPI of 21%. That is to say, fuel poor households living in the private rented sector are required to spend more than a fifth of their income to achieve an adequate level of warmth in the home.

Ofgem[35] (2008) indicates that the number of customers over time (2003-2007) with fuel debt remained fairly constant, although the amount of fuel debt per customer was shown to have increased during the same period. According to the most recent supplier obligations report from Ofgem[36], the average gas debt per customer was £204 in quarter 4 of 2007, although by quarter 3 of 2008 this had fallen slightly to £185. The average electricity debt per customer had risen over the same period from £224 to £236.

The rise in electricity debt could be explained by the massive fuel price increases of January and July/August 2008. However, because of the seasonal effect of the summer period, any effect of increases on debts associated with gas, the most common means of heating homes in GB, has yet to be detected. Ofgem is not due to release its Supplier Obligations Report for 2008 until later in 2009. Therefore, it is too early to assess what the longer-term impact on debt levels will be of these fuel price hikes, as accrual of debt may not show until one to two quarters after the winter period of 2008-09. Quarterly results discussed should be interpreted with this in mind.

As we allude to above, it is NEA's view that moving vulnerable customers onto a PPM to recover a fuel debt is not in the best interests of the consumer. Not only is it a more expensive means of paying for fuel, but Ofgem[37] reports that households using PPMs have the highest levels of debt, take longer to repay debts, and also pay higher amounts towards servicing their debts in comparison with non-PPM users (see Table Five below). This is despite a supplier obligation to take account of the customer's ability to pay when setting their debt repayment level, and Ofgem's recommendation that those on low incomes or means-tested benefits should pay no more than the current Fuel Direct level of £3.25 (per fuel) in weekly debt recovery.

The protracted length of time for debt recovery suggests that the installation of a PPM may not be in the best interests of the supplier. Although there is no direct evidence that we are aware of which might explain why PPM users take longer than non-PPM users to repay a debt, we can infer from their lower average income and higher average fuel bill that the amount available in household budgets to repay the debt will be low. An alternative approach to payment is required for vulnerable customers either in or at risk of fuel debt, which is discussed in Section Five.

Table 5: Average debt repayment and recovery period (July–Sep 2008)

	Non-PPM		PPM	
	Average weekly amount towards debt	Average number of weeks to recover debt	Average weekly amount towards debt	Average number of weeks to recover debt
Electricity	£4.67	51	£7.99	60
Gas	£4.26	49	£6.23	77

The number of PPMs installed across GB specifically as a means to recover debt increased by 19% for electricity and 6% for gas during 2008. Almost 14,000 more

[35] Ofgem (2008) Domestic Suppliers' Social Obligations: 2007 annual report
[36] Ofgem (2009) Monitoring Company Performance: quarter 3 2008
[37] Ofgem (2009) Monitoring Company Performance: quarter 3 2008 & (2008) Monitoring Company Performance: quarter 2 2008

PPMs were installed to recover debt in Quarter 3 of 2008 than in Quarter 1 of 2008, the period between which fuel price increases occurred. In the same period, the number of gas PPM users repaying a debt increased from 0.3m to 0.4m, whereas the number of electricity PPM users in debt remained static, as did the number of standard credit customers repaying debt.

Table 6: Debt and disconnection[38]

Q2-Q3 2008 (numbers)	Electricity customer in debt	Gas customers in debt	Electricity PPM users in debt	Gas PPM users in debt	Electricity disconnections for debt	Gas disconnections for debt
England Q2	1,092,808	909,876	518,878	320,015	732	746
England Q3	1,048,943	816,739	**526,657**	**377,044**	597	547
Scotland Q2	198,485	122,438	72,604	32,231	184	100
Scotland Q3	178,590	102,076	70,486	**32,768**	65	47
Wales Q2	54,089	48,459	21,798	27,472	44	93
Wales Q3	50,547	46,588	20,669	27,139	25	41
GB Q2	1,345,392	1,080,773	613,280	379,718	960	939
GB Q3	1,278,080	965,403	**617,812**	**396,951**	687	635

Table Six above shows that between Quarters 2 and 3 of 2008, the overall number of customers with a debt for both gas and electricity fell slightly. However, of those customers, the number using a PPM (the vast majority of whom are based in England) for their gas or electricity has increased. For electricity PPM users, the proportion with a debt increased marginally from 16.9% to 17% and, for those with a gas PPM, the proportion with a debt increased from 15.9% to 16.5%. These results might suggest, in the absence of more up-to-date figures from Ofgem, that the average fuel price increase across both fuels during 2008 of 45% is increasing customers' likelihood of accruing fuel debt.

Ofgem have stated that they will continue to closely monitor suppliers' performance, with a particular focus on debt levels, disconnection rates and PPM installation levels. A more in-depth review of suppliers' practices and policies in this area will be undertaken throughout 2009.

Self-disconnection and under-heating represent further dangers associated with high fuel prices for the most vulnerable. These phenomena are often hidden, and there is little empirical data about them available. Self-disconnection occurs where a household cannot afford to 'top up' their meter and has used up its emergency credit, leaving household members without power and/or heating. In terms of the detrimental effect on mental and physical wellbeing, this is of particular concern in relation to older PPM customers and those that have an illness or disability and/or have young children at home.

Under-heating occurs across all payment types, but is particularly prevalent among low-income households and households where there is a high level of overall household debt that cannot be easily serviced. Under-heating tends to occur in households that are struggling financially and who, as a result, keep their home at a level of warmth lower than what is required for their physical and emotional well-being. For many households that under-heat, they do so because of a need to

[38] Ofgem (2009) Monitoring Company Performance: quarter 3 2008 & (2008) Monitoring Company Performance: quarter 2 2008

make a choice between servicing an unaffordable fuel bill and being able to spend money on other necessities such as healthy foods, hot meals and warm clothing. It is also conceivable that those cutting back on the energy they need to keep their homes warm may be reducing the use of energy required for hot water, and are either unable, or fear being unable, to afford the energy required for these basic utilities.

For many households, the presence of a fuel debt is an indicator of wider financial difficulties. Households in fuel debt are more likely to have other debts that they are unable to service, such as loans, credit cards, water, telephone, and council tax arrears. In a period of substantial domestic fuel price hikes, more needs to be done to address fuel debt, through suitable and appropriate recovery mechanisms, and by enhancing affordability through the tariff structures available.

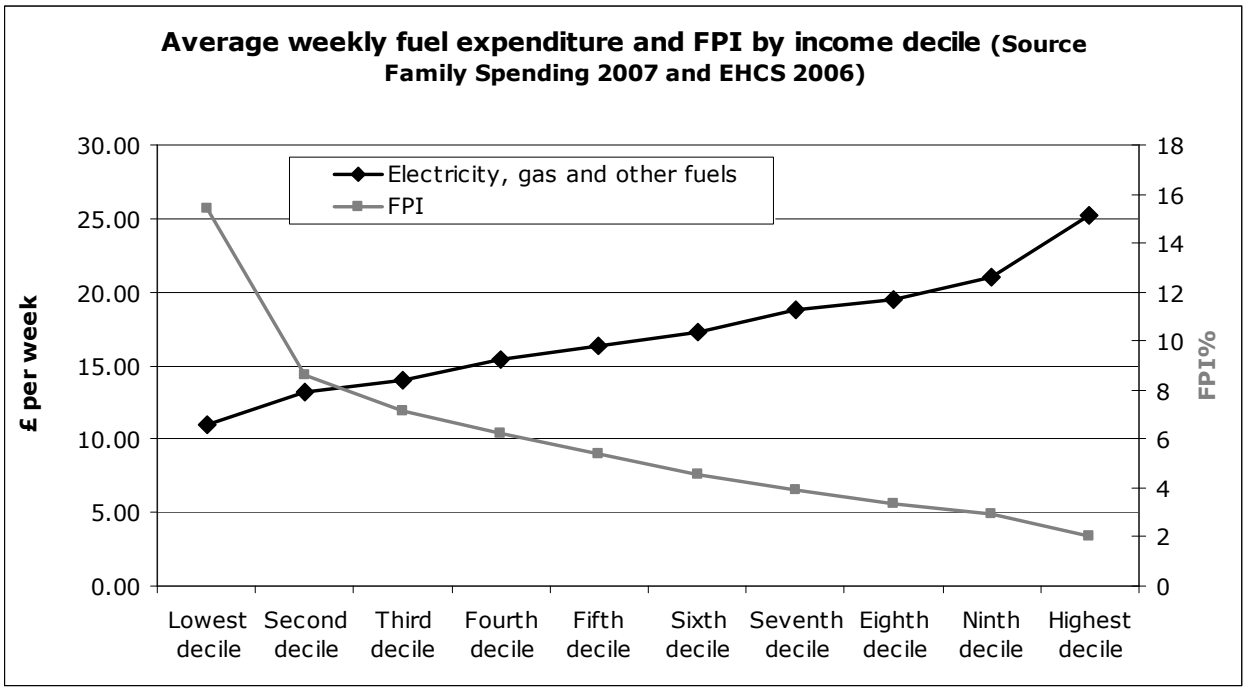
The Family Spending Survey 2007 (UK) published in 2008 shows us that expenditure on fuel increases in line with income, that is, those with lowest incomes spend less per week on fuel than their more affluent counterparts. The average weekly spend across all households is £17.20 per week. For those in the lowest income decile it is £11.00, as shown in table seven below, and for the highest decile, the weekly expenditure on fuel is £25.20. However, fuel poverty is most prevalent amongst those with the lowest incomes and although they spend a smaller amount on fuel, this expenditure represents a relatively higher proportion of their overall household income. As such, FPI decreases as income increases, as shown in Chart 1 below.

Table 7: Average fuel expenditure and FPI by income decile[39]

Income decile	UK average weekly spend (£)	Average FPI (%)
Lowest decile	11.00	15.4
Second decile	13.20	8.6
Third decile	14.00	7.1
Fourth decile	15.40	6.2
Fifth decile	16.30	5.4
Sixth - ninth decile	19.10	3.7
Highest decile	25.20	2.0
All households	**17.20**	**6.0**

[39] Note for clarity: Weekly expenditure is plotted against UK gross income deciles and FPI is plotted against English net income deciles.

Chart 1



Both the chart and table above show, as would be expected, that those least able to afford fuel spend less on keeping warm. To explore the link between fuel affordability and the propensity to accrue fuel debt, data from National Debtline (GB) was examined. The data revealed that, across GB, the number of enquiries received by National Debtline concerning fuel debt has increased at a greater rate than those involving other debts.

Table Eight below, based on data produced by National Debtline, shows the increase in the percentage of enquiries regarding a range of types of debt during the 2003-2008 period. The percentage of calls that included water debt almost doubled, and enquiries about fuel debt more than tripled, from 2.87% of all enquiries in 2003 to 9.17% of calls in 2008.

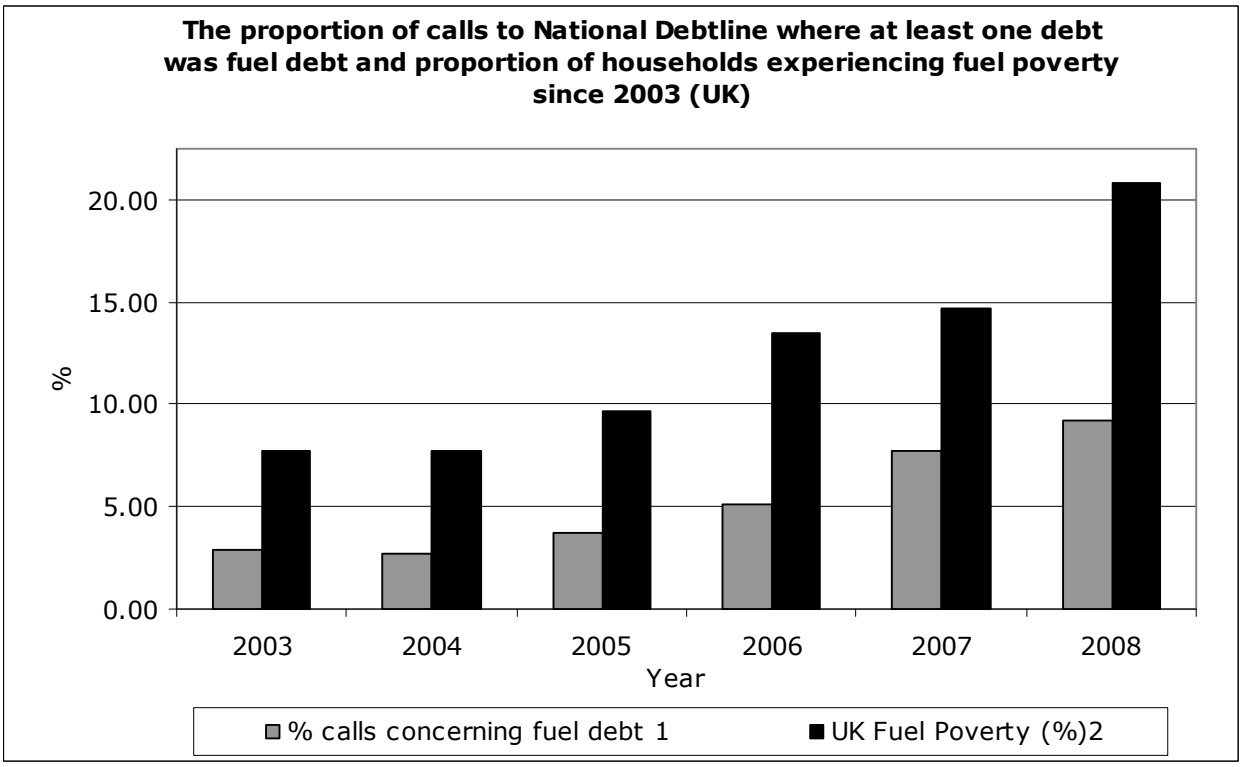
Table 8: Percentage of calls by type of debt from 2003–08 (Source: National Debtline GB only)

Annual averages	Bank/ Building Society loans/ODs	Credit cards / store cards	Illegal Loan shark debt	Mortgage shortfall	Rent arrears	Water debt	fuel debt
2008	69.02	67.33	0.03	1.88	6.31	4.31	9.17
2007	69.23	68.14	0.03	1.55	6.15	3.75	7.68
2006	69.51	69.67	0.02	1.24	5.02	3.03	5.09
2005	64.74	65.05	0.04	1.41	4.54	2.63	3.71
2004	57.95	57.31	0.06	1.77	4.20	2.28	2.67
2003	62.62	61.92	0.06	2.50	5.07	2.30	2.87
Increase from 2003-08	**1.10**	**1.09**	**0.49**	**0.75**	**1.24**	**1.88**	**3.20**

To provide an indication of whether the upward trend in these types of enquiry was simply a symptom of wider financial difficulties due to the current economic climate, figures regarding other types of debt have been included in Table Eight above. A comparison between the incidence of fuel-related and other types of debt enquiry suggests that fuel debt is becoming more widespread across GB.

Between 2003 and 2008, fuel prices increased by 123%, during which time fuel poverty in the UK increased from around 2 million households to over five million households. The chart below illustrates the upward trend of the last five years in relation to both fuel poverty levels (UK-wide) and numbers of fuel debt-related enquiries to National Debtline (GB only).

Chart 2



1 National Debtline 2003-2008 (GB only)
2 2003-07 UK Fuel Poverty Annual progress report 2008 (2008 estimate NEA)

If we take the GB data from National Debtline as an indicator of consumer concern and possible prevalence of fuel debt up to and including December 2008, then we can conclude that increasing concern about fuel debt occurred during a period of considerable rises in the price of domestic fuel and is in line with the increased incidence of fuel poverty[40]. Data pertaining to incidence of fuel debt up to the end of 2008 and into 2009, resulting from last year's price increases, has not yet been released by Ofgem. However, the Energy Retail Association (ERA) in early 2009 indicated that its members had not reported significant increases in debt, whilst conceding that demand for fuel debt advice has been increasingly steadily.

Evidence suggests that households are often forced into difficult decisions regarding their household budget. These are particularly well highlighted in a report by

[40] It should be noted that National Debtline data is GB-only and the Fuel Poverty figures are UK-wide.

energywatch (2008)[41], and include choosing whether to heat the home or have a hot meal; whether to switch heating on at all or less frequently, or to set it at lower temperatures; whether parents/guardians can afford to buy their children a warm coat this winter; and in the case of those using PPMs, considering self disconnection.

The stress brought to bear on households experiencing debt, including fuel debt, can have serious and long-term consequences for physical and emotional well-being. Research from Foresight[42] found that while low incomes were a risk factor for mental health disorders, debt was a stronger risk factor. It was reported that 50% of people in debt have a mental disorder. Of those with a mental disorder, the most-cited debts included gas and electricity.

Where consumers are struggling with fuel debt, one option is Fuel Direct. Now known as the Department for Work and Pensions' Third Party Deduction system, it is a payment option for those receiving a number of prescribed means-tested benefits.

What is Fuel Direct?
Fuel Direct is a method of payment for particular consumers experiencing major difficulties in budgeting, and is generally considered to be a payment method of last resort. Access to Fuel Direct requires that a domestic consumer should have gas or electricity debt and be in receipt of Income Support, Income-based Jobseeker's Allowance, or Pension Credit. The agreement of both the Department for Work and Pensions (DWP) and the energy supplier must be in place for a consumer to access Fuel Direct. Fuel Direct involves direct deductions being made from benefits for both current consumption and for debt recovery. The debt recovery rate is set at £3.25 per fuel type per week. Although Fuel Direct is supported by NEA, it is not without its limitations, which are discussed in the next section. Fuel Direct is taken up by only a very small and declining proportion of consumers, fewer than 48,000 in GB[43] (<0.1% for electricity and 0.1% for gas) compared with 305,000 across GB in the mid 1990s. The option is poorly promoted, despite offering the option of Fuel Direct as a payment method being a mandatory requirement of energy suppliers' Licence Conditions.

It has long been a concern of NEA that the payment methods available to financially –excluded households, including those without access to a direct debit facility that allows them to benefit from preferential tariffs, those on low incomes, and those at risk of or already in fuel debt, are too limited and not to the benefit of this group of consumers. There are justified concerns that vulnerable and low-income households are forced into a position where they become further financially and socially disadvantaged.

[41] Gibbons, D. & Singler, R. (2008) Cold Comfort: a review of coping strategies employed by households in fuel poverty. energywatch
[42] http://www.foresight.gov.uk/Mental%20Capital/Final_Project_Report_part3.pdf
[43] Ofgem (2008)

4. CURRENT OPTIONS FOR ENERGY CONSUMERS

This section outlines the current payment options available and summarises the consumer protection regulation in place both within the UK and outside the UK (where relevant information could be identified). Unfortunately, data regarding fuel payment methods in the rest of the EU was not easily accessible. However, previous NEA work in Europe has meant that some of the legislative and statutory requirements regarding consumer protection in relation to fuel debt have been indentified. The section concludes with a brief look at the future for energy policy, and how this could affect tariffs and access to affordable warmth for all.

4.1 The UK market

The table below presents the current fuel payment methods available in the UK and their associated advantages and disadvantages.

Table 9: Advantages and disadvantages of payment options available in the UK

Advantages	Disadvantages
Direct debit	
• Can offer weekly and fortnightly payment options to enable improved budgeting. • Mostly suitable for customers with a regular income and with a bank or building society account. Benefits those who find monthly budgeting easier than quarterly budgeting. • Same payment is made each month and requires no action from the customer once set up. • Accounts can be easily amended in line with energy consumption with the cost spread evenly throughout the year, thus avoiding unaffordable winter bills. • A reduced tariff is offered. • Significant savings to supplier in administration costs and offers a more regular and reliable source of income with less risk of debt. • Online accounts offer further price deductions.	• Not suitable for those receiving their income at irregular intervals. • Not suitable for financially-excluded consumers or those without access to mainstream financial services. • Removes budgetary control from the consumer. • May incur banking charges for the consumer where a payment is missed due to insufficient funds being available. • Requires regular and accurate meter reading to avoid billing difficulties and catch-up bills.
Quarterly Standard Credit	
• Pay for what you have used in arrears as long as accurate meter readings	• Historically higher tariffs than direct debit.

have been taken. • Allows the consumer flexibility regarding their means of payment (at the Post Office, by post, Pay Point etc). • Allows the consumer to have control over when they pay the bill, especially important for those on low or fixed incomes. • Some suppliers offer prompt payment discounts.	• Difficult to budget due to seasonally fluctuating bills. • May be difficult for some households to accommodate large winter bill. • Problems can arise due to estimated billing.
Prepayment meters	
• Pay for fuel as it is used. • Allows consumer more control over their budget and to budget according to means. • No large bills to worry about. • Avoids further debt.	• More expensive way to pay for fuel. • Need to understand fuel consumption levels and how standing charges and debt are reclaimed from the credit applied. • Tokens/cards may not be on sale nearby. • Risk of self-disconnection.
Fuel Direct	
• Payment for current use of fuel and debt taken directly out of benefits. • Fuel expenditure and debt repayment evenly spread. • Simplicity for the customer. • Capacity to clear debt in a systematic fashion. • No concern about self-disconnection.	• Deduction may not cover required payment amounts and there is some concern that those using Fuel Direct increase consumption of fuel under the misunderstanding that DWP has taken responsibility for fuel costs. • No flexibility in household budgeting. • Individual DWP offices are inconsistent in applying eligibility criteria. • Complex processes and systems associated with limited automated payments and expense associated with administering the scheme means it is perceived as burdensome by both DWP and suppliers.
Cash plan or budget scheme without a bank account	
• Regular payments made at Post Office or PayPoint.	• Inconvenience associated with having to travel to payment location, and other access to

• Payments can be made on a regular basis.	services issues. • Consumer has to remember to make the payments at regular intervals. • No discounted tariff.
Flexible plans or pay-as-you-go	
• Payments of differing amounts can be made in advance reducing likelihood of unexpected unaffordable bills. • Can pay towards your next bill.	• Need to be careful to pay off the bill before the next is due. • Requires a lot of monitoring.

In Northern Ireland, there is a single electricity tariff across all payment types (apart from economy7 and Standard Time of Day metering). A 2.5% discount is applied to PPMs and a 4% reduction to direct debit accounts. The most expensive way to pay for fuel in Northern Ireland is to pay by standard credit or budget scheme.

4.2 Payment methods and consumer protection outside the UK

4.2.1 Republic of Ireland

In addition to direct debit type payments and paying for household bills when they arrive, e.g., quarterly standard credit bills, which can be paid in person or online facilitated by An Post (Post Office Services), the following payment options are available in the Republic of Ireland:

- **PostPoint**: PostPoint is An Post's retailer network that allows households to pay household bills in cash, using a bar-coded paper bill. The service is free and flexible with many retail outlets operating 24/7 opening times. The consumer has full control over payments and part payments can be made.

- **Billpay.ie**: is a secure online bill payment service, allowing immediate payments to be made.

- **Household Budget**: Household Budget is a service that allows people who receive Social Welfare payments to pay a regular amount towards various household bills by direct deduction from their payments. An Post operates the scheme on behalf of the Department of Social and Family Affairs. In effect it is the Irish equivalent scheme of Fuel Direct. Total payments made in this way cannot exceed 25% of the customer's total weekly Social Welfare payment, but should cover the minimum payments due on the accounts to which they apply.

- **The Money Advice and Budgeting Service (MABS)**: Clients of this service are provided with the facility of a weekly one-stop payment option for paying bills, by operating a Budget Account that is usually operated via a local Credit Union. The account is offered to MABS clients free of charge and is designed to make it easier to service all commitments via one payment. MABS

distributes the lodged funds to the client's selected services and/or creditors on a monthly basis.

4.2.2 France

In France, tackling financial disadvantage is approached via initiatives to ensure a guaranteed minimum household income. In relation to fuel costs, a central Energy Solidarity Fund has been developed to contribute towards the cost of unaffordable fuel bills accrued by disadvantaged households. Both Gas de France (GDF) and Électricité de France (EDF)[44] contribute. The fund was set up a result of the French Government establishing the principle of 'essential services[45]', including energy, as it had done previously for housing, for which there also exists a Housing Solidarity Fund.

The setting of a regulated, uniform tariff by the state-owned gas and electricity suppliers, EDF and GDF, ensures that prices across France are among the least expensive in Europe. However, there have been tentative moves towards the opening up of a domestic competitive energy market. A partially-competitive market in distribution and supply already exists, with EDF's status as wholly owned by the government changing when a number of shares were floated on the Paris Stock Exchange in 2005. Despite this move, the monopoly position held by EDF remains. Some commentators believe that the full opening of the domestic market will lead to increased tariffs.

Local authorities (*communes*) are, at least potentially, the key co-ordinating bodies for fuel poverty and social disadvantage issues in France. They are best placed to identify cases of need within their catchment area, and are empowered to help administer and contribute to Energy Solidarity Funds in order to provide a range of support services for vulnerable households. Communes coordinate housing bodies, social action organisations, energy efficiency funding sources, and sustainable development agencies, to support affordable warmth provision in their communities.

Unpaid bills tend to be regarded as the key indicator of fuel poverty in France. The primary and probably most effective policy in place in France for tackling issues associated with fuel debt and affordable warmth is a short-term one, namely payment of bills by the Energy Solidarity Fund.

A form of 'social tariff' is also offered in France. However, only limited details of this scheme in relation to electricity were identified. EDF reports that special 'basic necessity' prices came into effect for vulnerable customers in 2004. The basic necessity 'tariff' is financed by a public service electricity fund to which all French consumers contribute an amount defined by the French regulator[46]. From the information available it is unclear whether the public service electricity fund is distinct from the Energy Solidarity Fund or one and the same.

Payment options in France:

Fuel payment options available in France are similar to those in the UK.

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[44] GDF (2005) & EDF (2004) Sustainable Development reports.

[45] Bronos, S. (2007) MSc thesis: Access to water services for the urban poor in Europe: Characterising and considering vulnerable groups in French and English public policies. Cranfield University. https://dspace.lib.cranfield.ac.uk/bitstream/1826/2157/1/Thesis%20Final%20-%20Bronos.pdf

[46] EDF (2004) Sustainable Development report.

Bills can be paid online, by direct debit, by post (cheque), by phone (credit card) or by cheque or cash at an EDF local shop.

The only budget option identified was direct debit, which is offered as a means of spreading fuel expenses over the year. As in the UK, a monthly payment amount is determined by an estimate of electricity consumption.

4.2.3 Belgium

In Belgium, indicators of difficulty in meeting energy costs are associated with general financial disadvantage. In recent years, financial disadvantage has been exacerbated by rising energy and housing costs, and also by the fact that both vulnerable and other low-income households are likely to occupy the worst housing.

These factors are compounded by a lack of information and consumer awareness regarding how to improve energy efficiency and reduce energy consumption. Lack of information has led many householders to make uninformed decisions in competitive energy markets, resulting in their agreeing expensive and potentially punitive supply contracts.

The tri-partite nature of the Belgian legislative framework results in some degree of inconsistency across Flanders, Wallonia and the Brussels regions. However, there is a considerable degree of convergence in policies associated with low-income and other vulnerable energy consumers, which bear similarities to those adopted in France:

- Social tariffs relating to gas and electricity supply and an allocation of a heating allowance for households using oil or LPG (Liquefied Petroleum Gas).
- Budgetary advice and guidance are provided at a municipal level.
- Each regulatory body for electricity and natural gas provides a mediation service that can resolve disputes between the consumer and supplier.

As in France, the local authority (commune) is considered best placed to provide direct assistance to vulnerable households, primarily through a network of Public Social Welfare Centres (CPAS). Each commune is served by one of these agencies, which have a remit to provide support, guidance and budgeting advice to energy consumers in difficulty, grant financial assistance to indebted energy consumers, and provide assistance through a heating allowance of oil, paraffin or propane gas for households off the mains gas network.

In the Walloon region, the CPAS network has extended the range of its interventions to include assistance with restoring supply following disconnection; in-depth advice to identify the source of fuel-related problems and enable consumers to manage their energy consumption better; and help in accessing financial support for energy efficiency improvements.

A social assistance fund is available for those in fuel debt.

4.2.4 Italy

The issue of utility affordability has a growing profile in Italy. However, socio-economic and even climatic factors are so variable that defining affordability in terms of utility services can be complex.

There are legislative and fiscal programmes for social assistance and welfare, developing and providing a network of services to allow all households the right to a decent standard of living and avoid encountering social exclusion or poverty. Municipalities are best placed to monitor and act on fuel poverty-related issues at an individual household level as a result of their role in liaising with energy suppliers when a family or individual finds it difficult or impossible to pay their energy bills.

Energy suppliers in Italy are rarely involved in programmes to assist disadvantaged consumers. However, in one instance a supplier agreed with a number of municipalities and the National Energy Authority to impose a 1% levy on all gas tariffs to provide a fund to help indebted consumers pay their bills.

4.3 An EU overview

Understanding of fuel poverty and related issues varies widely among European Union nations. Policy awareness and practical interventions range from the supportive but fragmented initiatives prevailing in Belgium and France to the arrangements prevailing in Italy, where the phenomenon of fuel poverty is not well recognised, or at least concern over the issue is not identified as a key indicator of social deprivation.

Clearly, the governments of Belgium, France and Italy all share a concern to ensure the health and welfare of their citizens, and all have administrative and legislative frameworks to promote this objective. Equally clearly, the governments of the different countries vary in the extent to which they prioritise affordable energy as an issue of major concern. If, as seems likely, future energy policy becomes increasingly environmentally-oriented and this is reflected in measures that promote that agenda, e.g., energy taxation and increased electricity generation from renewables with potentially adverse cost implications, then domestic energy efficiency and fuel poverty policy should gain a higher profile across Europe.

Despite the absence of a formal structure to address fuel poverty as a multi-faceted problem, the countries identified above, to a greater or lesser degree, do implement policies that tackle both the causes and the symptoms of fuel poverty. However, these policies are not always statutory and, in some cases, the role of protecting the interests of vulnerable households is effectively devolved to the voluntary sector in the form of charitable organisations.

Unfortunately, this scoping exercise was unable to access detailed information about payment methods across the EU.

4.4 Future energy policy implications

As Table Ten below illustrates, future energy policy that is strongly linked to the carbon reduction agenda may well have a negative impact on affordable tariff levels. Many of the associated costs of implementing these policies would entail a levy on all domestic fuel bills. Although there is potential for governments to use more progressive alternative approaches, including funding through taxation structures, such an approach would require strong political will.

Table 10: Estimated cost impact of main climate change schemes on GB domestic bills in 2008, 2015 and 2020[47]			
Programme	**2008**	**2015**	**2020**
EU Emissions Trading Scheme	£31	£40-£60	£40-60
Renewables Obligation	£10	£28	£28
Extra costs to meet EU renewables target	N/A	£10-£19	£43-£53
Microgeneration feed in tariff	N/A	£8-£12	£8-£40
Renewable heat obligation	N/A	£11-£30	£104-£209
Carbon Emissions Reduction Target	£38	£46	£46+
Total (range)	**£79**	**£142-£194**	**£268-£435**

Owen (2008) argues that energy efficiency is crucial in delivering solutions to social and environmental problems and, in addition, that renewable technologies will make an increasingly significant contribution to both fuel poverty reduction and mitigation of the effects of climate change. The social equity issues in terms of the impacts of policies and the costs associated with their implementation can, however, introduce a conflict between environmental and financial inclusion concerns, which a progressive government-led approach could help overcome.

[47] Owen, G. (2008) Towards an equitable climate change policy for the UK – funded by eaga plc.

5. AN ALTERNATIVE FOR VULNERABLE ENERGY CONSUMERS?

In considering what an alternative payment method for vulnerable consumers might consist of and how it might operate, it is important to consider currently available mechanisms, and to assess which elements of these could offer vulnerable customers the best option for fuel payment in terms of:

- Supporting ability to budget.
- Increasing financial inclusion.
- Enhancing access to mainstream services, or services that would allow improved access to the competitive market.

Most importantly it is essential that any new method incorporates elements that minimise the risk, incidence, and level of fuel debt wherever possible.

Any new payment method should also present a case to (a) suppliers, in terms of easier account management and lower associated costs and (b) the regulator, in terms of meeting social responsibilities with regard to vulnerable and low-income consumers' access to the market.

A new method should address both fuel debt, through suitable and appropriate recovery mechanisms, and affordability, through improved access to beneficial tariff structures, e.g., direct debit discounts.

NEA recognises that access to and use of transactional facilities such as direct debit could inadvertently add further stress to households used to managing in a cash economy and with little experience of more complex financial procedures, and/or those on a low and fixed income or whose income is received on an irregular basis and who may find it difficult to budget on a monthly basis.

Our proposals take into consideration the requirement that any new payment method for those either at risk of or in fuel debt should not apply any additional pressure on households to manage their finances, or put them at risk of over-indebtedness due to penalty charges associated with failed direct debits. The proposed model removes the risk of rejected payments, via a unique ring-fencing approach to managing fuel bills.

We propose the creation of an account which, like the MABS budget account, can accept payments at intervals that suit the consumer. This account could be operated via a Credit Union, Basic Bank Account, or an adapted and expanded Post Office Card Account (POCA). The potential for expansion of the POCA is currently being reviewed in policy circles, having been the subject of a recent Business and Enterprise[48] Select Committee investigation, and recommendations from the Conservative Party.

A consortium known as the Post Bank Coalition has recently emerged, to explore issues relating to financial services for vulnerable consumers. Launched on the 6th July 2009, the day before the publication of the Business and Enterprise Select

[48] Department name change: Business Enterprise and Regulatory Reform now Business Innovation and Skills (BIS).

Committee's report on the future of post offices, the Post Bank Coalition[49] has set out a proposal to include use of the government-owned Northern Rock Bank as the basis for a bank in the Post Office. "*Delivering the Post Bank: Financial services for people, communities and small businesses at the Post Office*"[50], sets out how a Post Bank could be established.

Operating through the post office network, Post Bank would protect and provide a network of support to communities and small and medium-sized businesses, and would offer a range of services, including:

- Electronic terminals: Allowing in-store computer access to all services, including government information, banking and Royal Mail products and services
- POCA: Would be enhanced with greater functionality
- Routine transactions: Rent payments (local authority and housing association); council tax queries and payments; benefits and tax-credit applications and 'signing on'
- Local authority communication with residents (Local Connect – a service that provides local authorities with a means of communicating with local residents
- Provision of debt and financial planning advice provided in partnership with other organisations engaged in financial inclusion, such as local credit unions.

The development of a new method of fuel bill payment for disadvantaged customers would be timely in a period when fuel prices are at unprecedented levels, there is much debate around price differentials, and political pressure is being exerted to address these issues. A well-researched and practicable payment mechanism could contribute to meeting a number of government objectives, including those relating to fuel poverty and financial inclusion.

The proposed model is set out below.

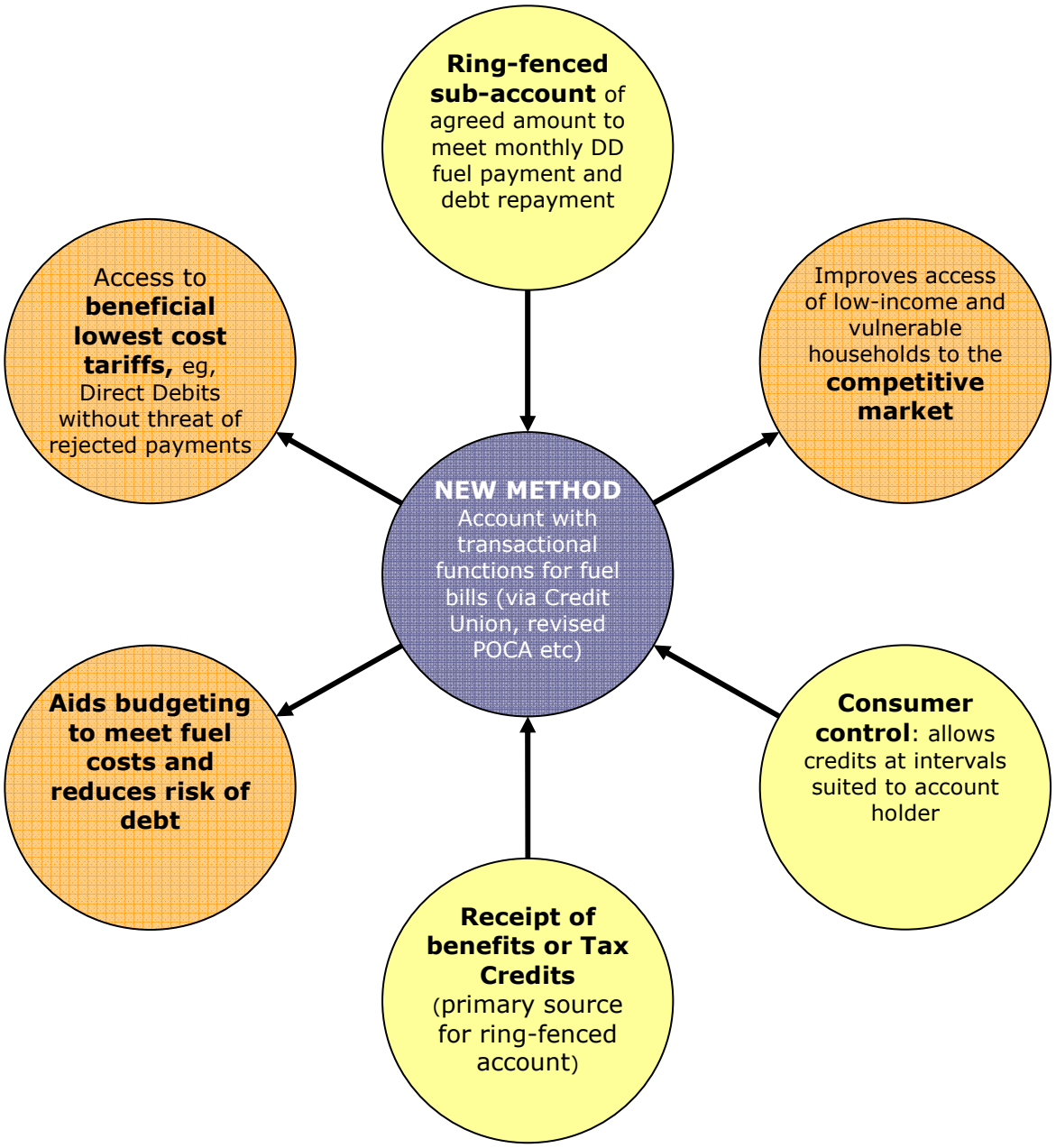
[49] The Post Bank Coalition currently consists of members from the trades unions that represent Post Office employees, the Federation of Small Businesses, the New Economics Foundation, the Public Interest Research Centre, and the National Pensioners Convention.
[50] Post Bank Coalition (2009) Delivering the Post Bank: Financial services for people, communities and small businesses at the Post Office. Available from: http://www.neweconomics.org/

5.1 Proposed model, components and benefits:

This method of payment would be open to any consumer who either has an existing fuel debt or is identified as being 'at risk' of fuel debt. 'At risk' is a concept that could potentially be difficult to define, although it might include customers who have failed to make their energy payments on time, or those who have indicated to their supplier that they are struggling to pay their fuel bills.

Where the account holder is not in receipt of means-tested welfare benefits or Tax Credits, a fixed and agreed amount from earnings or wages would be paid into the relevant account to ensure funds are available to meet the requirements of the ring-fencing function. It is proposed that the new method be initially restricted to those in receipt of means-tested welfare benefits or Tax Credit payments.

Diagram 1: Model components and benefits



The proposed method would be voluntary and not unduly restrictive, allowing the merging of an operational and accessible basic cash account with dedicated transactional facilities for the servicing of fuel bills and providing access to the suppliers' lowest available tariffs via direct debit payments. It is intended to distil and combine the most beneficial elements of:

- A simple and accessible cash account such as the POCA
- Direct debit payments, and the preferential tariffs these open up to consumers
- Fuel Direct - widening the customer base from just those in debt to those at risk of debt, and removing the administrative burden from the Department for Work and Pensions to the fuel supplier[51].

A briefing paper published by Save the Children and the Family Welfare Association (2007)[52] found that poor families pay around £1,000 or 9% more of an average household's disposable income on acquiring credit or cash and essential products and services. The existence of a 'poverty premium' has informed the rationale of a piece of work entitled '*Saving from Poverty* [53]' (SfP), which proposes that a social enterprise should be set up to enable low-income individuals and households to budget, avoid debt, and qualify for discounts to minimise the impact of the poverty premium.

It is proposed by SfP that such a social enterprise would reduce the cost to service providers of serving poorer consumers and enable companies to reinvest savings in improved budgeting services and reduced tariffs for consumers. The infrastructure costs of the service would be funded by public and private sector service providers who would be willing to pay for a service that would reduce their operational cost-to-serve and levels of debt write-offs. SfP has been able to undertake analysis to investigate whether the service would be a viable and commercial business model as well as socially orientated. The cost to provide such a service has been established as £4.82 per customer, which would be funded through an annual charge to service providers that wish to offer the service to their customers.

The SfP proposal is similar in nature to the one proposed in this paper, in that it would allow access to direct debit type payments for bills (although the SfP proposal covers all bill payments for service/products where the poor often pay more), via added functionality to the Post Office Card Account. The SfP proposition also supports our recommendation for the creation of a sub-account to be made available for the purposes of budgeting and repayment deductions.

5.2 The consumer experience

Below are the anticipated steps of the process from payment set-up to a positive consumer outcome.

[51] The supplier would benefit from lower debt collection, administration, and account management costs. Accounts of poorer customers cost 2.4 times more to service than those of more affluent customers, due to debt write-off and associated administration. Source: Ofgem (2008) BERR Committee Inquiry into Post Offices. A memorandum by Ofgem.
[52] Save the Children & the Family Welfare Association (2007) Why the poor pay more
[53] http://www.savingfrompoverty.org.uk/

Diagram 2: Consumer process steps

Step 1: The consumer has a debt or has reported difficulties in meeting their fuel costs and discusses payment options with their supplier.

Step 2: The consumer, in agreement with the supplier, opts for the new payment method and an account is set up to receive any existing benefits or Tax Credit payments or, where appropriate, funds from another source.

Step 3: The consumer receives a 'starter package' of services to help them manage their fuel bills and reduce their risk of debt in future.

Step 4: A monthly direct debit schedule is agreed between supplier and consumer, to cover costs of current use as well as debt repayments at an affordable rate.

Step 5: The agreed direct debit amount is siphoned into the dedicated, ring-fenced sub-account.

Step 6: The consumer can access non-ring fenced funds freely.

Step 7: A direct debit is collected monthly to meet fuel spend and the consumer receives a direct debit tariff discount.

Step 8: Both the consumer and supplier benefit from reduced costs.

Step 9: A dedicated account review is provided by the supplier within two months of account opening and then every six months thereafter.

Step 10: The financial inclusion of the consumer is enhanced, with likely improvements to financial confidence and reduced risk of debt.

Energy efficiency advice services and products, including the provision of information to consumers about how to manage their fuel bills and what do if they receive an estimated bill to ensure correct billing, should be provided as part of a 'starter package of services'.

5.2.1 Starter package of services:

This package should include written guidance and details of free telephone advice services, or face-to-face advice where required. These resources will enable vulnerable consumers to better understand their fuel bills, how to access available energy efficiency related services, such as grants, and provide information and guidance on how to read their own fuel meters.

Knowing how to use energy efficiently at home, and being aware of measures and services available to improve thermal home efficiency will assist vulnerable consumers to empower themselves and reduce their risk of future debt ,through better fuel bill management and more efficient consumption of energy, which will in addition enhance their ability to achieve affordable warmth.

In addition to the advice and other services specifically related to fuel and energy efficiency, details of services offering wider debt and financial advice should also be provided to ensure a holistic approach is taken to address the financial wellbeing of consumers. These advice and information functions could be provided in partnership with trusted, experienced, and well positioned third-sector organisations.

Mandatory meter readings should be taken by the energy provider when the new account is opened and quarterly thereafter for the first year of operation (in cases where the consumer has not been able to provide a reading). Consideration should be given to providing consumers with the most appropriate tools to enable their participation in home energy management. Freepost self completion meter reading cards for consumers to complete quarterly could be provided alongside meter reading guidance.

It is proposed that the package of services should be coordinated primarily by the supplier and account provider, however, there is a key role here for independent third-sector organisations, especially in the provision of impartial and quality advice services.

5.3 The account operator

A new payment method could easily be incorporated into the bill payment services currently offered by some Credit Unions, where members pay into an account and the Credit Union administers payments to members' creditors for regular bills. At present, such models offer a generic bill payment facility, rather than a separate payment method specifically for fuel which would provide access to reduced tariffs. However, this is not to say that Credit Unions would not be well placed to operate a more specialised payment method targeted at fuel payment. An illustration of how bill payment services (multiple bill payments) operate within a Credit Union is provided below.

Case example: Community Budgeting Account (CBA)

CBA is a service due to be launched in Autumn 2009 and will operate from a soon-to-be-formed Kent Credit Union. The service will then be expanded to operate from credit unions across three further areas, including Surrey and East and West Sussex. The service could potentially reach 4 million people.

The concept behind CBA is '*Monergy'*, which was developed by the New Economics Foundation and the National Association of Credit Union Workers. The scheme was piloted by ROMCUL (Robert Owen Montgomeryshire Credit Union Limited) in partnership with Bro Ddyfi Advice Centre in Wales, and offers four key services: money and debt advice; energy advice; bill payment services; and savings and loans. The '*Monergy*' project was successful in securing First Prize at NEA Cymru's 2008 Feel the Heat awards scheme[54].

CBA will be operated using Progress, a supplier of service software and support to credit unions across Ireland and the UK. CBA, using the software provided by Progress, works by receiving the members' benefits and/or wages, which are then used to electronically pay members' bills, including any creditors and depositing a sum into their credit union savings and loan accounts (if applicable). Before a budgeting plan is put into practice, the member sees an adviser (eg, from a CAB) to help draw-up a financial statement and explore ways of maximising income and minimising indebtedness.

The service has been able to agree reciprocal referral systems with CABx and other agencies, to help ensure maximum assistance is delivered efficiently via partnership working. A partnership has also been agreed with a local energy provider, with a view to assisting Credit Union members to access dual fuel tariffs.

After bills/other creditor payments have been paid, surplus income is then paid electronically into a Basic Bank Account. In future, the Credit Union may decide to send the surplus money to a Credit Union Current Account where agreed with the Credit Union member.

The CBA will enable the Credit Union to offer Debt Management Plans (DMPs) to those usually excluded from the service at present. DMPs are used to ensure timely and affordable repayments to creditors, preventing enforcement action. Many debtors on the lowest incomes cannot currently access the standard repayment systems such as those offered by the Consumer Credit Counselling Service [55].

Information provided by Third-sector.co.uk

[54] NEA Cymru 'Feel the Heat awards'. Open to not-for-profit organisations seeking funding to help deliver an affordable warmth/fuel poverty-related project. (funded by SWALEC).

[55] Consumer Credit Counselling Service offers an X-Plan DMP, which effectively disburses token payments on behalf of clients who do not have enough disposable income to make them a viable proposition for 'standard' DMPs.

Limiting the involvement in such a scheme to Credit Unions would pose a number of problems because of the current geographical gaps in provision of these institutions, their low current levels of membership, and limited public awareness of Credit Unions. It would therefore appear sensible to extend the model to the Post Office, a national, well-known, and well-trusted service with high levels of use among the general public, and the financially excluded in particular, through the operation of the POCA.

For the Post Office to successfully operate the payment method, the POCA would require significant modification, not least the introduction of a transactional facility to enable direct debit payments. A revised POCA would also need to permit credits other than benefits or Tax Credits to be made to accounts. The introduction of such additional POCA functionality is supported by a number of organisations such as SfP and the Post Bank Coalition. However, there are also geographical access barriers to consider, particularly in rural communities where Post Office services are being withdrawn.

There would be potential benefits for the Post Office as account operator in taking on the proposed payment method. In addition to expanding the functionality of the POCA, the scheme would also serve to widen the Post Office's overall portfolio of services, and could assist the network in strengthening its attempts to maintain existing levels of service provision.

Whilst SfP has proposed a service operated via the POCA, we suggest that consideration is given to alternative and parallel account operators to supplement a POCA facility, including Credit Unions and Community Banking Partnerships, whose participation would broaden access to the scheme. This would enable the service to incorporate the best practices of both Credit Unions and Community Development Finance Institutions to create a range of financial services for financially-excluded people and reduce the barriers to access associated with eg, areas where local Post Office services have been withdrawn.

The Post Bank proposal allows for the provision of debt and financial planning advice provided in partnership with other organisations engaged in financial inclusion work, such as local Credit Unions. This model could potentially bring together the services of both the Post Office POCA and other financial institutions, such as Credit Unions, to operate a fuel payment method in parallel. Thus, local post offices could serve as access points for a range of other financial services including debt advice and financial management schemes.

5.4 A ring-fenced sub-account

The unique aspect of the new payment method would be a ring-fenced sub-account, used solely for the purposes of honouring a direct debit fuel payment. Under this model, the ring-fenced account could not be used to make payments to any other source or to withdraw or impede access to funds without prior arrangement, in order to minimise the risk of default on payments, for example, where the account is closed by the account provider.

The ring-fenced account would consist of deposited funds accumulated in the period leading up to the date of payment. The supplier would ensure the payment date on which funds would leave the account remained consistent or that payment would

take place on the closest working day to the agreed date, eg where the payment due date falls on a weekend or Bank Holiday.

The direct debit amount for payment of fuel consumed should be calculated in the same way as standard direct debit payments to cover fuel use for the year, and an affordable amount should be agreed between the supplier and the consumer for debt repayment. These arrangements should be monitored and agreed with Ofgem in terms of general criteria to which individual suppliers must conform, which will help to ensure affordability and minimisation of risk to the consumer. Maximum notification periods and support in the form of free, independent advice should be offered when price increases are imminent to allow vulnerable consumers using the new payment method to consider taking advantage of the energy market by switching payment type or supplier, should they wish to do so.

Further investigation is required, and caution should be exercised regarding potential changes to the benefit status of consumers. Changes in benefit or Tax Credit payments due to changes in an individual's circumstances may result in reduced or delayed benefits or Tax Credit payments. This in turn could have an impact on the consumer's ability to pay the required sums into the account, thus risking default on a direct debit payment.

SfP has outlined the delivery costs of and potential market for a service providing bill payment to a range of creditors, not just fuel providers. They also recognise that any such service must prioritise the needs and experiences of vulnerable consumers. We share this view and believe that every possible step should be taken to protect the consumer from the potentially adverse effects of any new payment method.

6. CONCLUSIONS AND RECOMMENDATIONS

The main objective of this scoping study was to develop the case for and identify the components of a new payment method for vulnerable households either at risk of or in fuel debt. Currently, energy consumers in fuel debt are likely to be financially excluded already and, consequently, to have limited access to the competitive market. They may be further disadvantaged by their inability to switch supplier in search of a better deal because they have a fuel debt, despite Ofgem's debt reassignment protocol.

The most viable current method for low-income consumers to repay a debt is a PPM. Consumers who are concerned about falling into fuel debt can request a PPM, and each year many consumers request their installation, despite PPMs being one of the most expensive payment methods.

Previous sections of this report have illustrated the links between low incomes, PPM use, expensive tariffs associated with payment method (including standard credit), and fuel poverty. The relationship between affordable warmth, financial and social exclusion, and impacts upon the health and well-being of consumers have been discussed within the context of the current energy market and policy structures, in order to demonstrate the rationale for and timeliness of the introduction of a new payment method for those vulnerable to fuel debt.

NEA believes that a new payment method to help households avoid fuel debt through better budgeting, access to lower-cost tariffs, and controlled use of a transactional bank account via a ring-fenced sub-account could help deliver real benefits to those currently not active in, or failing to benefit from, the competitive market. At the same time, risk of fuel debt would be reduced and financial inclusion would be promoted.

The Post Office Card Account and Credit Unions have been discussed as potential account operators and there is considerable discussion regarding the possible transformation of the Post Office and its services, such as proposals and findings from the Post Bank Coalition, SfP, and the recently-published Business and Enterprise Select Committee report on the future of the Post Office network[56]. We propose that consideration is given to the feasibility of these and other account operators acting (in parallel and concert) to maximise access to a new fuel payment service for financially excluded people.

The introduction of a new method to improve vulnerable consumers' access to the market could potentially overcome any risks to market distortion that might be associated with the introduction of restrictions on suppliers. This is because a new payment method would not introduce any limitations to the market, rather it would support the participation in the market of those currently most excluded from it. The Financial Inclusion Taskforce (FITF) has been tasked under the Home Energy Saving Programme (HESP) to work with Ofgem, suppliers and other stakeholders to examine potential to extend the use of direct debit for fuel payments. The next phase of NEA's planned research programme in this area will include consultation on the proposal described in this report, and particular efforts will be made to engage

[56] Business and Enterprise Committee. Post Offices Securing their future. Eighth report of session 2008-09, Vol 1. July 7th 2009

with the FITF, in order to inform its agenda as well as to gather feedback from its members. As part of this consultation process, NEA intends to convene a wider stakeholder group to help advise on how the proposed new method could be implemented and successfully operated.

There appears to be support from the wider consumer protection industry for imaginative approaches to assisting consumers in fuel poverty at risk of or in fuel debt and action to tackle financial exclusion. For example, groups such as Consumer Focus[57] (formerly the National Consumer Council) are campaigning for better metering and billing services and the facilitation of more innovative payment methods to support the delivery of social benefits to consumers.

NEA recommends that research is undertaken to estimate the amount of arrears that suppliers might recover from consumers under any new payment method. We suggest this work could be carried out through a partnership involving consumer groups, the regulator and suppliers. The facilitation and success of the payment method would also rely heavily on establishing a partnership arrangement between suppliers, the account operator, DWP and Ofgem. Investigations should include how consideration of a new fuel payment method could co-exist with and be complementary to wider initiatives such as SfP.

It is recommended that the new payment method be initially limited to consumers either in or at risk of debt and who are also in receipt of means-tested benefits or Tax Credits; but it is anticipated that subject to evidence of the scheme's viability, it might subsequently be extended to other consumers either in or at risk of debt. The extension of the service should be phased in to ensure that expansion is sustainable, relative to the resources and capacity of the scheme.

A new payment method will need to be particularly well targeted and promoted among its target population and, subject to agreement with the regulator, should also be included in the Ofgem recommendations for customer information to be better and clearly presented on bills, an issue on which Ofgem has recently consulted.

We recommend that particular caution is exercised concerning potential changes to the benefit or Tax Credit status of consumers that may result in possible payment delays, and/or reduced payments. Such changes are likely to impact on consumers' ability to collect sufficient funds in the ring fenced sub-account to meet direct debit payments.

It is essential that consumers' needs and well-being are central to the development of a new method for fuel payment. As such, within two months of an account opening, it is recommended that an initial review of consumers' experience and of account functionality should take place. Subsequently, a six-monthly account review, similar in format to that of direct debit reviews currently provided to consumers paying by this means, should assess viability of payment levels, and also include a holistic assessment of whether the scheme is meeting the needs of the consumer.

[57] NCC (2007) Energy billing & metering - the consumer interest. Response to government consultation on better billing and metering.

Mandatory meter readings should be taken by the energy provider when the new account is opened, and quarterly thereafter for the first year of operation (in cases where the consumer has not been able to provide a reading). We recommend that adequate advice on energy efficiency, energy management, and meter reading skills should be provided via a 'starter package' of services in order to empower the consumer to reduce their level of risk of debt and take responsibility for the management of energy use in their home. These services would be comparable to those offered by schemes such as Monergy, where debt and energy advice is provided as both a preventative and an empowering measure.

We recommend that future planning of and research into a new payment method give due consideration to the legal status of funds held within the sub-account. This concern relates to situations where insolvency comes into play, as monies held in a notionally ring-fenced account may be deemed to be recoverable assets. Although such an investigation falls outside the remit of this scoping study, it is highlighted as a concern that would need a full investigation, as it goes to the overall viability of the proposed payment method.

6.1 Next steps

It is hoped that this paper will both provoke debate and also contribute to the growing body of research regarding improvements to access to the competitive energy market for vulnerable consumers.

NEA has been successful in securing funding to support the first phase of a larger study. This will involve consulting further on the proposed new method developed via this study, with a view to future consumer consultation and pilot implementation of the model. The consultation phase will include discussions with key industry representatives, consumer agencies and Government stakeholders (see Table Eleven below).

Table 11: Key stakeholders for consultation	
• Money Advice Trust	• Ofgem
• Financial Inclusion Task Force	• Energy Retail Association
• Energy suppliers	• Transact
• Department for Business, Innovations & Skills (BIS)	• Personal Finance Research Centre: Bristol University
• Post Office	• Payments Council
• British Bankers' Association	• Association of British Credit Unions Limited
• Department for Work & Pensions (DWP)	• National Association of Credit Union Workers
• BACS	• Citizens Advice (across the UK)
• Advice UK	• Consumer Focus (across GB)
• Advice NI	• Consumer Council Northern Ireland
• Saving from Poverty	• New Economics Foundation (NEF)