



*National RIGHT TO FUEL Campaign*



## **Social tariffs – a solution to fuel poverty?**

A report to UNISON

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The study had to make some difficult decisions about which specific findings should be included in the report of the interviews. We would like to apologise for not including the full and rich depth of contributions provided by participants during the interviews.

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## **EXECUTIVE SUMMARY**

This report outlines the results of research undertaken by the Centre for Sustainable Energy (CSE) and National Right to Fuel Campaign (NRF) into the implications of fuel companies' social tariffs for fuel poverty policy. The research was funded by UNISON, a trade union that represents large numbers of energy industry and public sector employees.

The research consisted of a literature review, qualitative semi-structured interviews with 'stakeholders' and secondary data analysis of current social tariffs provided by suppliers (the 'impact assessment'). The qualitative research technique, 'framework', was used to analyse the interview findings.

There is very little literature on the topic of social tariffs itself. The review therefore explored three themes related to social tariffs:

- Their policy context – the review shows how liberalisation of energy markets, rising fuel prices and their impact on the Government's Fuel Poverty Strategy targets, helped encourage the development of social tariffs in Britain.
- The debate within welfare policy over universal versus means-tested provision and its implications for social tariffs, important because most current social tariffs are means-tested.
- The debate over the adequacy of corporate social responsibility (CSR) initiatives for delivering social policy, important because most current social tariffs are funded through fuel company CSR programmes.

Twenty four stakeholders were interviewed for the research. These were drawn from five 'constituencies', selected as particularly relevant to the topic: Government, regulatory bodies, fuel suppliers, sectoral 'interest groups' and 'low income groups'.

The interviews found that perspectives on both the current value of social tariffs and their potential future value as a (partial) solution to fuel poverty varied considerably. Most supported the concept of social tariffs; however, some regarded the help provided as marginal while others thought it could potentially be quite significant. Many participants thought social tariffs could play a useful complementary role to energy efficiency measures, with some suggesting targeting them on 'hard to treat' properties (where there are few cost effective energy efficiency measures available).

Participants' perspectives on who should receive social tariffs also varied. In general, suppliers, regulatory bodies and Government representatives favoured restrictive eligibility criteria that required a high degree of target efficiency. The same participants regarded CSR as the main funding route for social tariffs with only a limited amount of cross subsidy permissible.

Low income and interest groups tended to advocate generous eligibility criteria, were less concerned about expenditure or cross subsidy and were more concerned to get a better deal (through social tariffs) for low income consumers within the competitive market. The Government participants acknowledged that certain low income

consumers had lost out through failure to switch company. They felt such consumers should therefore get a better deal from their suppliers in the form of social tariffs. There were sharp contrasts over the extent to which participants considered CSR an adequate basis for providing social tariffs. Regulatory bodies and suppliers supported CSR and considered 'stakeholder pressure' sufficient to ensure their longevity. Low income and interest groups, by contrast, considered CSR unsustainable and too susceptible to changes in company policy.

The perceived weaknesses of CSR led most low income and interest group participants to call for Government intervention to prescribe social tariffs and place them on a firmer footing. However, regulatory bodies and most suppliers were opposed to intervention, arguing this would stifle innovation. Nevertheless, they welcomed other forms of Government and regulatory involvement; for example, the promotion of best practice, support from the DWP to identify eligible consumers and changes to rules to make it easier for suppliers to set up a supplier-led national social tariff (not all suppliers supported this). Government participants ranged from opposing intervention to full support, following the outcome of a national pilot.

The 'impact assessment' found that many social tariff consumers paid more than consumers of the same company who paid standard Direct Debit prices. It also found that many social tariff consumers could save more money by switching to the standard tariff provided by another company (although, in practice, these consumers tend not to switch). However, with the exception of Scottish Power, there were few competitive offers for prepayment meter consumers. Consumers could make the greatest savings by changing supplier and payment method, i.e. to Direct Debit, although the latter is not an option for many social tariff consumers.

The report questions the use of the term 'social' for certain products, particularly when social tariff consumers pay higher prices than Direct Debit consumers of the same company, despite the latter tending to be more affluent.

The report concludes with a series of policy recommendations, including:

- Suppliers should seek greater consistency over the existing social tariff products they offer, given that the type of household most adversely affected by price rises is not likely to vary much. This includes a common understanding of which consumers should benefit and reform of social tariff rates such that they are at least equivalent to the lowest standard tariffs offered in the open market.
- The proposal from certain fuel companies to set up a single national social tariff will require Government intervention if the tariff is to be meaningful. This is because such a tariff should offer a price at least equivalent to, or cheaper than, the lowest current price in the open market. It would therefore require a significant degree of cross subsidy and regular review of the rate offered, given the frequent changes to market prices. The 2000 Utility Act requires the Government to ratify programmes that entail significant expenditure.
- The Government should commission a full comparative evaluation of social tariffs and alternative or complementary policy options before making any decision on whether or not to prescribe a national social tariff. This should examine the

effectiveness of social tariffs in terms of their impact on both national fuel poverty levels and on individual households. The latter should examine issues of stigma, perceptions of tariffs and effects on consumption behaviour, as well as impact on households' fuel poverty status. The proposed evaluation should also examine international experience of social tariffs.

- The Government should use the proposed evaluation to help inform its Energy Review, with respect to deciding the “further steps ... (required) towards meeting the government’s goals for ensuring that every home is adequately and affordably heated”.



## 1. INTRODUCTION

The 2000 Warm Homes and Conservation Act represented a historic moment in fuel poverty<sup>1</sup> policy (UK Government, 2000). The Act required the Government to produce a strategy for eliminating fuel poverty in England and set targets for its implementation (the Act also covered Wales, while parallel legislation was passed by the Scottish Assembly and Northern Ireland Assembly). The resultant UK Fuel Poverty Strategy (FPS) committed the Government to eliminating fuel poverty over a fifteen year period (DEFRA & DTI, 2001).

At first, it looked as if the Government would comfortably achieve its targets. Fuel poverty declined dramatically between 1996 and 2003 due to the combination of rising incomes, falling fuel prices and improved energy efficiency standards. However, the prospects of the Government meeting its targets now look much more doubtful. Fuel prices have risen dramatically over the past 2 years, pushing many households back into fuel poverty. Furthermore, fuel prices look set to remain high for the foreseeable future.

The Government therefore faces a dilemma if it is to get back on track for hitting its targets. It has little control over domestic energy prices, since these are set by the competitive energy market. A ratcheting up of benefit levels on the scale required to offset price rises would entail a major increase in public expenditure. It could substantially increase energy efficiency programmes, which would represent a long term sustainable solution. However, the size of the task is considerable. A large amount of housing in Britain is thermally inefficient, has poor heating systems and in the case of 'hard to treat' properties<sup>2</sup>, requires expensive measures.

The Government has therefore sought to encourage fuel companies to offer 'social tariffs'<sup>3</sup> to low income households as a means of mitigating the impact of price rises. The energy regulator, Ofgem, and consumer 'watchdog', energywatch have taken a similar approach of exhortation, rather than advocating direct intervention (Ofgem, 2004a; energywatch, 2005a).

Despite the current enthusiasm for social tariffs, there is little research or analysis of their effectiveness. There is a general attitude that they must represent a positive improvement: anything to reduce fuel prices for 'vulnerable' households can only be beneficial. However, there has not been a serious evaluation of social tariffs with respect to their appropriateness in providing a long term solution to fuel poverty.

This study aims to make a contribution towards such an evaluation. More specifically, it aims to meet the following objectives:

- to review the literature on social tariffs;
- to review concepts of universal or means-tested provision and State or market provision to help assess the appropriateness of social tariffs;

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<sup>1</sup> See glossary for definition.

<sup>2</sup> See glossary for definition.

<sup>3</sup> In brief, a tariff designed to reduce fuel costs and only available to 'vulnerable' and/or low income customers. Appendix 1 gives a list of current social tariffs.

- to carry out a survey of 'stakeholders' to gauge their perspectives on social tariffs, possible improvements to social tariffs and possible policy alternatives;
- to investigate whether further research is needed and if so, what the priorities for research should be; and
- to make initial recommendations for policy towards low income consumers with respect to social tariffs or to suggest alternative approaches.

CSE and NRFC consider the study very timely. The Government's Energy Review recognises that without a further policy intervention, 1.2m vulnerable households in England will still live in fuel poverty by 2010 – the target date for fuel poverty elimination (DTI, 2006). The review also requests suggestions for possible further steps that will enable the Fuel Poverty Strategy to be brought back on track (ibid). Social tariffs may represent one possible 'further policy intervention'.

While the research does not provide a full evaluation of social tariffs, for example it did not investigate consumer attitudes or impact on fuel poverty, it does seek to take the debate forward on this important area of policy, as well as present possible alternative approaches.

## **2. THE DEVELOPMENT OF SOCIAL TARIFFS: LITERATURE REVIEW**

There is very little literature – academic, Government or ‘grey’ – on social tariffs. This review therefore explores three related themes that are central to understanding the development of social tariffs in Britain and their implications for future policy. The first theme relates to the policy context of social tariffs. The review describes how the privatisation and liberalisation of Britain’s energy industry, combined with the impact of fuel price rises on the Government’s Fuel Poverty Strategy targets, helped encourage the development of social tariffs.

The second theme relates to the debate within welfare policy over universal or means-tested provision, with a particular focus on social security policy. The review argues that this debate has important implications for social tariff policy, given that most social tariffs are means-tested. The third theme relates to the debate over the adequacy of corporate social responsibility (CSR) initiatives for delivering social policy. This debate is also important for social tariff policy since most current social tariffs are funded through fuel company CSR programmes.

There is a considerable body of literature on the three themes. The review focused on the literature that was most pertinent to social tariffs. The review also helped inform the design and analysis of the stakeholder interviews.

### **2.1 The policy context for social tariffs**

Since the mid 1980s, the UK Government has pursued a policy of first privatising and then liberalising Britain’s energy industry (UK Government, 1986; 1989; 1995). Economic regulators were created to regulate the monopoly elements of the industry (transportation, transmission and distribution) and foster free markets on the supply side. Price controls on the different elements of the industry were set according to the principle of ‘incentive regulation’, characterised as ‘RPI-X’, rather than ‘rate of return’ (profit) regulation as commonly exists in the USA (Littlechild, 2003). The mechanism was intended to encourage efficiency savings in the industry as companies sought to maximise profits. Within the domestic supply market, regulators set price controls for the three main payment methods: Direct Debit, Standard Credit and prepayment meter<sup>4</sup>.

The 2000 Utility Act continued the liberalisation process by giving the new combined gas and electricity regulator, Ofgem, a duty to protect consumer interest “wherever appropriate by promoting effective competition” (UK Government, 2000a, paras 9 & 13). This enshrined the primacy of market arrangements for allocating energy services to consumers. The Act requires Ofgem to have ‘regard’ for the interests of older and disabled people, people on low incomes and rural dwellers which Ofgem addresses through the mechanism of a five year Social Action Plan (Ofgem, 2000 and 2005a). The Act also established a new combined gas and electricity ‘watchdog’, independent of the regulator (now known as ‘energywatch’), and gave the Secretary of State powers to set energy efficiency targets on suppliers, referred to as the Energy Efficiency Commitment (EEC).

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<sup>4</sup> See glossary for definitions.

In 2002, Ofgem removed all remaining price controls within the domestic supply market on the grounds that competition was sufficiently advanced to provide protection for consumers without the need for controls (Ofgem, 2002). Many organisations did not agree with Ofgem's assessment of the market, particularly the lack of meaningful offers for prepayment meter consumers (energywatch, 2002).

The Government's fuel poverty policy began in earnest with the passing of the Warm Homes Act in 2000 and the publication of the UK Fuel Poverty Strategy in response to the Act (UK Government, 2000b; DTI & DEFRA, 2001). The Strategy describes how the Government will eliminate fuel poverty among 'vulnerable groups'<sup>5</sup> and social housing tenants by 2010 and among all other households by 2016. The Strategy also states the Government's intention to produce annual fuel poverty progress reports, including reviews of fuel companies' 'social initiatives'<sup>6</sup>.

The Strategy outlines the main programmes for achieving the Government's fuel poverty targets, with a particular emphasis on energy efficiency. Energy efficiency programmes include the Government's Warm Front grant programme for 'vulnerable' private sector households on means-tested benefits, the Decent Homes programme for social housing and fuel companies' EEC programmes, in which 50% of energy savings have to come from consumers on means-tested benefits. The Strategy gives a brief overview of energy market measures in which the Government's liberalisation agenda is again stressed: "the best way to ensure that fuel is affordable to consumers is through liberalising energy markets and promoting competition" (DTI & DEFRA, 2001, p16). It also gives a brief overview of income measures that will help contribute towards meeting the targets, e.g. the minimum wage, 'welfare to work', Pension Credit, Child Tax Credit and Winter Fuel Payments for pensioners.

Significant recent developments include the DEFRA's Fuel Poverty Action Plan and the Treasury's pre-Budget statement (DEFRA, 2004; HM Treasury, 2005). Both announced increased resources for the Warm Front programme. The Action Plan acknowledges the difficulties of tackling fuel poverty among fuel poor households living in 'hard to treat' properties and/or not claiming means-tested benefits. It calls for ideas on how to tackle the former problem and announced the inclusion of 'benefit health checks' for people enquiring about Warm Front but not on one of the passport benefits.

The above commentary illustrates the interaction between policies to address fuel poverty, the energy needs of 'vulnerable' and low income groups and liberalisation of energy markets. The current Labour and previous Conservative Governments both recognised the essential nature of gas and electricity services for health, comfort and quality of life. They have attempted to reconcile the 'social good' nature of energy services with private provision and liberalised energy markets. Thus, the original privatisations included some protection for low income and vulnerable groups, which later legislation sought to strengthen.

A number of commentators, however, argue that there is a tension, even conflict, between the government's liberalisation agenda and its social policy goals, such as

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<sup>5</sup> Defined as older people, families with young children and disabled people.

<sup>6</sup> 'Social initiatives' include benefit entitlement checks, charitable trusts, energy efficiency measures, referral schemes and social tariffs (see glossary for definitions).

eliminating fuel poverty or ‘fair’ access to energy services. This review focuses on two particular areas of contention: the distributional impact and the economic costs of liberalisation.

## **2.2 The distributional impact of liberalisation**

A number of commentators have argued that liberalisation has had a differential impact on consumer groups, with low income and ‘vulnerable’ groups in particular losing out. Baker and Klein, for example, contend that prepayment meter (ppm) customers suffer higher tariffs (often referred to as the ‘ppm surcharge’) and have little to gain from switching company since there are few competitive ppm offers (Baker, 2001; Klein, 2003). Prepayment meters are popular with many people on low incomes because they allow small and controllable cash payments<sup>7</sup>. Direct Debit tariffs are considerably cheaper than ppm tariffs; however many low income households cannot take advantage of Direct Debit because they either lack bank accounts or do not want to risk the financial penalties that arise when automated deductions take accounts into ‘the red’.

Consumers in arrears are also considered to have lost out from competition, due to ‘debt blocking’ (prevention from switching company) by their suppliers (energywatch, 2003; PUAf, 2003). Again, such consumers tend to either live on low incomes or have suffered a sudden change in circumstances, such as illness or unemployment (Kempson et al, 2004). Consumers still buying electricity from the original regional electricity company are charged higher prices than similar ‘out of area’ consumers, with the former tending to live on low incomes (Salies & Waddams Price, 2004). Age Concern argues that many older people have not benefited from the lower prices that can be realised by switching company, due to perceptions of a complex market and the bad publicity associated with door to door sales staff (Age Concern, 2003)<sup>8</sup>.

Ofgem counters these criticisms by arguing that all consumers have benefited from lower prices, whether or not they switched supplier, and that rates of switching are now similar among all income groups, household types and payment methods (Ofgem, 2004b). Ofgem defends higher ppm tariffs on the grounds that it cost suppliers more to maintain the ppm infrastructure, due to expensive meters and the costs of handling frequent small cash transactions (Ofgem, 1999).

However, Baker argues that the growing difference in tariff rates has led to a more unequal energy market; regulatory policy should therefore seek to reduce inequalities as well as overall prices (Baker, 2001). The Centre for Competition Policy found that many consumers were discouraged from switching due to confusion over the complexity of offers; further, 32% of consumers who had switched electricity supplier were found to be paying higher prices than they paid to their original supplier (Wilson & Waddams Price, 2005). The National Consumer Council (NCC) has coined the phrase ‘market-based exclusion’ to describe the processes by which suppliers ‘cherry pick’ affluent consumers and restrict choice for low income consumers, leading to fewer competitive deals (O’Reilly et al, 2005). The NCC goes on to argue that these

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<sup>7</sup> See glossary for further description of ppms.

<sup>8</sup> Ofgem’s latest statistics show that pensioners and ppm users display the lowest gas switching rates among the 11 different consumer groups identified (37% of both groups have switched gas company, compared to an average of 47%) (Ofgem, 2005c).

processes have been reinforced by weak ‘social regulation’, compared to strong ‘economic regulation’.

### **2.3 Challenging the economic benefits of competition**

The British approach to liberalising its energy industry is widely heralded as a success story and provides a model for reforms of electricity and other network industries around the world (Official Journal of the European Union, 2003; Kessides, 2004). Privatisation and liberalisation are considered to have brought about the efficient allocation of costs (through cost-reflective pricing), market sensitive investment, strong strategic management and consumer-focussed provision (Littlechild, 2000; Helm, 2004).

A success indicator for Ofgem is the extent to which it considers its powers are no longer required: as competition strengthens and energy markets mature, the need for regulation withers away. Both the Government and Ofgem attribute the substantial decline in gas and electricity prices that occurred over the 15 period prior to 2003 to liberalisation of the energy market (DTI, 2005a). Certainly, declining fuel prices contributed significantly to the fall in fuel poverty over the same period (DTI & DEFRA, 2005).

Critics, however, argue that the decline in electricity prices would have occurred regardless of competition, due to declining world fossil fuel prices, under-valuation of the electricity industry’s pre-privatisation assets and adoption of more efficient generating technology (Thomas, 2004). They also argue that the full costs of competition (IT infrastructure, marketing, merger activities, regulatory and company costs of stimulating switching etc) have outweighed the benefits (Maclaine, 2003).

Thomas argues that the current wholesale electricity market is inefficient due to its domination by a small number of vertically integrated companies<sup>9</sup>, while competitive forces within the retail market rely on domestic consumers switching supplier regularly, which they are ill-equipped to do (Thomas, 2004). Furthermore, merger activity between gas and electricity supply and electricity generation companies has created an energy market that is “moving dangerously close to an oligopoly with a veneer of competition” (op. cit, p27). The British retail market is now dominated by six companies, three of which are owned by large European multi-nationals.

Paradoxically, market concentration has helped encourage collective engagement by the energy industry in social and environmental policy. The energy industry, for example, plays an important role in the Government’s Fuel Poverty Advisory Group and recently established the UK Business Council for Sustainable Energy to promote sustainable energy policies<sup>10</sup>. It is responsible for delivering major energy efficiency programmes through the EEC and recently set up a national fuel poverty helpline (Homeheat) to provide benefits and energy advice to low income consumers (ERA, 2005). The Government’s reliance on the energy market to deliver many aspects of social and environmental policy, however, has led some to accuse it of abdicating its responsibilities and a ‘blurring of roles’ between State, regulator and industry (Helm,

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<sup>9</sup> See glossary for definition.

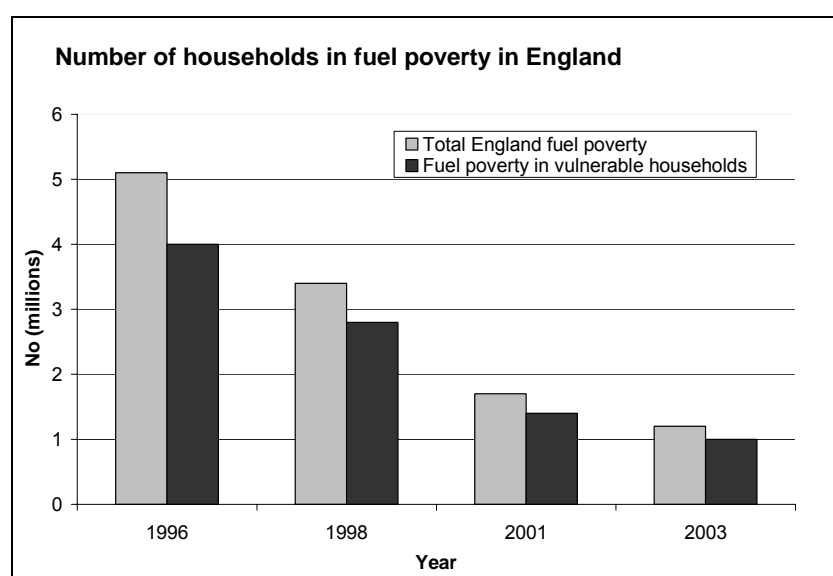
<sup>10</sup> See glossary for details.

2004; Fitch, 2005; NEA, 2004). This reflects wider debates on the role of CSR in delivering social policy and will be returned to later in this review.

## 2.4 Rising fuel prices and the emergence of social tariffs

When the Government set out its programmes for meeting the Fuel Poverty Strategy targets, it assumed that the hitherto decline in fuel poverty would continue (DTI & DEFRA, 2001). The combination of rising incomes, falling fuel prices and improved energy efficiency standards, helped along by the Strategy’s programmes, was considered sufficient to allow the Government to comfortably hit its target dates for fuel poverty elimination (2010 and 2016). Until 2003, the Government’s assumption looked reasonable (see Fig. 1 below).

**Figure 1: Fuel poverty in England**

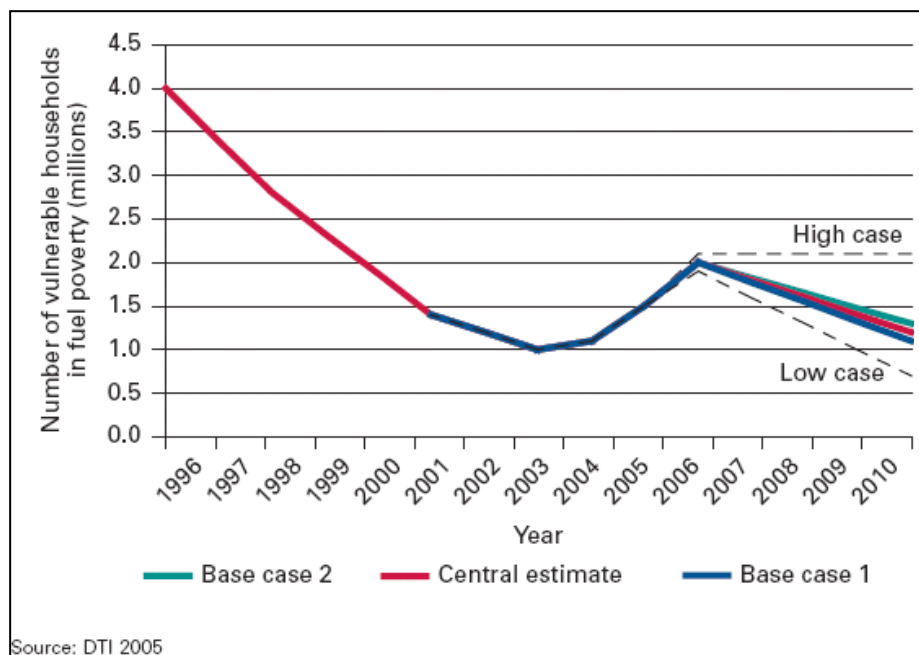


Source: DTI & DEFRA, 2005, table in para 4.6

However, the dramatic rise in fuel prices since 2003 (39% for gas and 29% for electricity) looks set to undermine progress on the Government’s targets (energywatch, 2005b). The Government estimates that for every 1% increase in prices, 40,000 more households fall into fuel poverty (DTI, 2005b). A Government analysis of the overall effects of changes in fuel prices and incomes suggests that “the number of vulnerable households in fuel poverty is likely to rise substantially in the short term, before falling back towards 2010, as energy prices stabilise and incomes rise” (DTI, 2006, p48). The same analysis suggests that fuel poverty among vulnerable households will have doubled between 2003 and mid 2006, from 1m to 2m households.

The Government’s Energy Review acknowledges that without a major policy intervention, an estimated 1.2m vulnerable households in England will still be in fuel poverty by 2010 (DTI, 2006). The total number of households in fuel poverty will be even higher, once ‘non-vulnerable households are also included (see Fig. 2 overleaf).

**Figure 2: projected number of vulnerable households in fuel poverty**



While the Fuel Poverty Strategy and subsequent progress reports<sup>11</sup> gave a brief overview of fuel company ‘social initiatives’, these were not generally regarded as mainstream to fuel poverty policy. However, with the advent of price rises, the Government and Ofgem now emphasise the role of ‘social initiatives’ and social tariffs in mitigating the impact of price rises on low income households. In 2004, for example, Ofgem issued guidance to suppliers on the implications of the 1998 Competition Act and supply licence conditions for social tariffs (Ofgem, 2004a). The guidance suggests that a social tariff “may make less profit than those offered to non-vulnerable customers” (ibid, p5). In effect, Ofgem gave suppliers the ‘green light’ to provide social tariffs to low income and vulnerable groups, providing they did not use non-supply parts of the company to cross subsidise loss-making social tariffs.

In 2005, Ofgem commissioned Energy Services Partnership (ESP) to carry out a review of suppliers’ corporate social initiatives (ESP, 2005). The review identified 99 supplier initiatives, ranging from small scale or pilot schemes to initiatives with multi-million pound budgets. It estimated the opportunity cost of these initiatives at £110m. ‘Social tariffs’ were estimated to account for 82% of all consumers helped through ‘social initiatives’. ESP gave a generous interpretation of ‘social tariffs’ and included temporary price freezes and price caps, un-metered tariffs and ppm tariff realignment<sup>12</sup>. ESP held back from ranking suppliers’ efforts. Instead, it highlighted examples of best practice and made recommendations for future action.

The Government has also exhorted suppliers to offer social tariffs, for example endorsing particular company products at the time of their launch and welcoming social tariffs as a response to rising fuel prices (TISC, 2005). Exhorting suppliers to offer compensatory tariffs to vulnerable households represented, until very recently, the only Government and regulator response to price rises (e.g. Ofgem, 2005b).

<sup>11</sup> See [http://www.dti.gov.uk/energy/consumers/fuel\\_poverty/fuel\\_strategy.shtml](http://www.dti.gov.uk/energy/consumers/fuel_poverty/fuel_strategy.shtml)

<sup>12</sup> This refers to the recent removal of the ppm surcharge by some suppliers (e.g. EDF, 2005). ESP describes this as a social tariff on the grounds that the new rates do not reflect their true costs.

However, the Government's 2005 pre-Budget statement provided a more concrete response. It included an extra £300m for Warm Front and committed the Government to provide Winter Fuel Payments for the lifetime of the Parliament (HM Treasury, 2005). Nevertheless, the statement, while providing for faster draw-down of the Warm Front programme, does not include new measures for hard to treat properties or raise grant maxima.

The Government's Energy Review also states that the Government is open to proposals for "what further steps should be taken towards meeting the Government's goals for ensuring that every home is adequately and affordably heated?" (DTI, 2006, p58). The DTI has modelled the impact of implementation of all cost effective energy efficiency measures on fuel poverty levels for the Government's Fuel Poverty Advisory Group (pers. comm.<sup>13</sup>). The intention is to establish how much fuel poverty will still remain and use this information to help inform the Energy Review. This provides an opportunity to explore the relative advantages of alternative policy interventions, such as social tariffs, more innovative energy efficiency measures and income rises (over and above those already planned).

Energywatch is a strong advocate of social tariffs and encourages suppliers to offer them whenever price rises are announced. Energywatch has promoted a set of criteria that suppliers should consider in developing new products (energywatch, 2005a). These include targeting social tariffs at low income groups (rather than, for example, all older people), restricting eligibility to people on means-tested benefits, integrating energy efficiency and other measures with social tariffs and providing a reasonable degree of longevity. Energywatch wants all suppliers to offer meaningful long term social tariffs, the outcome of which "should be a significant step towards ensuring universal thermal comfort in the UK and a reduction in the numbers in fuel poverty" (energywatch, 2005a, p5).

Suppliers have responded to Government and regulatory pressures. Two new products were launched during the period of this research alone. The UKBCSE produced a working paper that advocated all companies should subscribe to a nationally agreed fixed rate social tariff (pers comm<sup>14</sup>). The proposal has far reaching implications since its implementation would lead to the removal of a substantial segment of consumers from the competitive market.

All social tariffs are by definition rationed to specific groups of consumers and most operate some form of means test (Appendix 1 gives details of eligibility criteria). The review therefore examines the debate on means testing and universal provision in welfare policy, considering in particular social security, and comments on its implications for social tariffs.

## **2.5 Means testing versus universal provision**

In discussing the relative merits of different forms of welfare provision, a distinction is often made between non-means tested measures, of which 'social insurance' is an important element, and means tested benefits, of which 'social assistance' is a prime example (Nelson, 2004). Whereas social insurance provides income security against

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<sup>13</sup> Papers, to date, not published.

<sup>14</sup> See Appendix 1 for further details.

such social risks as unemployment and injury, social assistance guarantees a minimum amount of economic resources when other sources of income are insufficient to provide protection against economic hardships.

The UK system of welfare now relies on a very basic security insurance model that often requires supplementing by means-tested social assistance. The current model is far removed from the Beveridge principles that informed much of the original development of the UK welfare state. A key element of Beveridge's plan was that social security should provide sufficient income "for unemployment, disability and retirement ... so long as the need lasts, without means test" (Beveridge, 1942, para 20). Deacon and Bradshaw claim that it was the promise to abolish means tests that the Beveridge Report owed its considerable popularity (Deacon and Bradshaw, 1983).

Commentators have offered a number of explanations for the growth of means testing in British social security provision over the past two decades or so. Dean suggests that demographic pressures, such as the aging population, and the globalisation of work patterns led politicians of all parties to question the efficacy and affordability of universal provision (Dean, 1994). Similarly, the Economist suggests that Governments have taken the view that means testing allows benefits to be concentrated on the 'most needy', while minimising overall spending: "you get more bangs for your bucks" (Economist, 2002, p25).

Others suggest that the shift from a 'producer society' to a 'consumer society', in which consumerism places a high premium on 'choice', encouraged a substantial section of more affluent citizens to withdraw from the State system and rely on private provision instead (Bauman, 1998; Mishra, 1993). State provision, bereft of its popular support among all classes, increasingly relied on censorious means-testing for those still dependent on it. Galbraith similarly argued that the very growth of the welfare state produced a 'contented majority' who, in jealously protecting their freshly acquired independence, undermined support for the notion that the successful should assist those who "continued to fail" (Galbraith, 1992).

Bauman, continuing his theme of the consumer society, argues that "the norm broken by the poor of today is the norm of consumer competence or aptitude; not that of employment (as existed in earlier periods)" (Bauman, 1998, p90). Bauman argues that contemporary society treats 'poor consumers' as 'flawed consumers' in that they are not active and effective buyers of the goods and services the market has to offer. This has encouraged further restructuring of the welfare state towards means tested provision.

Other commentators argue that 'universalism', far from treating those with needs in like fashion, marginalises the already marginal due to its failure to recognise diversity (Ellison, 1999). Even supporters of Beveridge's universalist system accept that it was ill-equipped to adjust to more recent changes in the labour market, such as long term unemployment, greater part-time and casual employment and the increased participation of women (Barnes, 1999).

Many commentators are fiercely critical of the growth of means-tests. Harris, for example, argues that they are complex, stigmatising and demeaning for claimants

(Harris, 2005). Harris goes on to argue that this reduces benefit take-up, with the 'most needy' least likely to claim, thus contradicting the argument that means tests ensure resources reach those most in need. Barnes argues that means tests reduce incentives to work and save, since they are withdrawn as income rises (Barnes, 1999). Means tests are also considered to lead to 'poverty traps' in which people just above the threshold for benefit entitlement can end up worse off than those claiming benefits (Dilnot & Stark, 1986). This problem is exacerbated by the common practice of using entitlement to means-tested benefits as a passport to other benefits and grants, such as Warm Front.

Critics also point to the high administration costs associated with means tests; resources that are, in effect, 'wasted' (Economist, 2002). Titmus was a passionate advocate for universalism, arguing that "services for the poor have always tended to be poor quality services", due to the lack of political muscle exercised by low income households (Titmus, 1968, p134). Others argue that universal services foster social integration and a greater sense of community (Deacon & Bradshaw, 1983). Pederson refers to 'the middle class inclusion' thesis whereby universal benefits, in providing income security for middle as well as low income groups, encourage the formation of political coalitions in defence of the welfare state (Pederson, 1999).

Nelson argues that underlying the arguments in favour of targeting benefits is the notion of a 'zero-sum conflict'. Benefits distributed to the non-poor are assumed to decrease the amount available for redistribution to the poor (Nelson, 2004). Creedy challenges the use of target efficiency and expenditure neutrality for comparing policy options: "it is inappropriate to hold gross expenditure fixed in comparing transfer schemes ..... without any regard to the extent to which they actually reduce poverty" (Creedy, 1996, p174). In effect, Creedy argues that policy options should be evaluated according to their effectiveness at reducing poverty rather than efficiency at targeting resources towards the poor within a fixed budget.

Those taking a 'power-resource' perspective argue that the redistributive budget need not be fixed; Svallfors, for example, argues that public support for redistributive policies is generally greater in countries with generous social insurance systems than in countries with more parsimonious systems (Svallfors, 1997). Thus, options should be compared according to their ability to meet the desired policy objective and the degree of popular support they have, rather than their effectiveness at reaching a target group within a given budget.

These arguments are pertinent to governments contemplating options for an appropriate mix of the various social policy instruments they have to hand. However, what are their implications for social tariffs? After all, these are instruments deployed by private companies, albeit with the Government and regulator quietly cheering them on. Surely, the issues of funding and targeting are even more pertinent for institutions that have responsibilities to shareholders and limited manoeuvre for mitigating the inegalitarian effects of the marketplace?

In answering these questions, it is important to understand that most social tariffs in Britain are funded through the vehicle of corporate social responsibility (CSR). The review therefore considers debates on the adequacy of CSR for meeting social policy objectives.

## 2.6 Corporate social responsibility (CSR)

Social tariffs have clearly emerged out of the CSR agenda. For example, the ESP states that:

*“Ofgem sees the emergence of the concept of corporate social responsibility as a powerful business tool in helping companies contribute to wider economic, environmental and social well-being.... Ofgem is keen to encourage companies to give fuel poverty programmes priority within their CSR activities” (ESP, 2005, p8).*

The CSR ‘movement’ has certainly generated considerable interest, both in Britain and internationally. However, there are many critics of CSR as a mechanism for addressing social policy. The following reviews the debate and draws out the implications for social tariffs.

While there is no single accepted definition of CSR, there is a broad assumption that profit-making and fulfilling the needs of society go hand in hand. The World Bank’s definition, for example, states:

*“CSR is a term describing a company’s obligations to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with the need to make a profit” (quoted in Doane, 2005, p217).*

Other definitions tend to emphasise the notion of CSR as representing voluntary actions by business over and above compliance with minimum legal requirements (CSR.org.uk; EC, 2001). The implicit assumption is that by improving businesses’ delivery of better social and environmental outcomes, governments will not need to regulate them.

Supporters of CSR argue that it is in the long term interest of companies to pursue a CSR agenda. Capaldi, for example, places CSR within a legitimating framework which relates CSR to the firm’s bottom line, i.e. duty to make a profit (Capaldi, 2005). Thus, a firm’s major responsibilities are:

- 1) negative: what it is prevented by law from doing
- 2) positive: maximising shareholder value through creating innovative products and services through which its profits flow
- 3) supplementary: what firms should do in addition (i.e. CSR)
- 4) the hierarchy of priorities is negative>positive>supplementary, i.e. no positive can trump a negative and no supplementary can trump a positive.

(adapted from Capaldi, 2005)

Capaldi gives some telling examples of good CSR practice. He suggests that firms may promote educational reform, such as privatisation, as part of their role in improving education. They may advocate a lesser role for government agencies, where they consider this will bring about social benefits. They may choose not to work with governments that are opposed to free market values (Capaldi, 2005). There are many CSR advocates who will dispute Capaldi’s examples. However, the examples do point to a weakness within the CSR concept, namely that there are

many conflicting interpretations of what might constitute a 'social good'. More sophisticated proponents have therefore introduced the notion of 'stakeholder engagement' to address this problem: in effect, a consensual approach is used to define what CSR seeks to achieve.

Warhurst argues that "there are new multi-stakeholder convened global governance frameworks evolving that are encouraging businesses of the future to re-invent themselves as a 'force for positive good' in society" (Warhurst, 2004, p151). Central to this notion of CSR is the 'triple bottom line' concept, namely economic prosperity, social justice and environmental quality (Elkington, 1998). Companies should give as much weight to the second two factors as they do to the first. This requires companies to measure and report their performance on each factor and transparency in disclosing risk.

Warhurst contends that modern, progressive businesses have to engage with 'stakeholders' (NGOs, community groups, governments etc) in order to be successful. Such stakeholders are as important as shareholders and have interests far beyond the traditional ideas of corporate philanthropy or prevention of negative business effects. Instead, companies are expected to contribute to broader societal development goals, such as the eradication of poverty and environmental stewardship.

Other commentators take a more sceptical view of CSR. Doane argues that CSR is often little more than a public relations offensive to support 'business-as-usual' (Doane, 2005). The four key CSR drivers – managing risk and reputation, protecting human capital assets, responding to consumer demands and avoiding regulation – are all normal pressures that the market brings to bear in any new business strategy. She argues that voluntary reporting, codes and management systems are not sufficient to improve performance or change corporate behaviour because they lack credible enforcement mechanisms. Doane believes that the weakness of CSR is that it ultimately falls prey to the vagaries of the market: "social and environmental objectives do not always coincide with the hard-nosed business realities of the competitive marketplace ... CSR has failed in its refusal to acknowledge that the management of social and environmental issues is a matter of public concern – not necessarily a business one" (Doane, 2005, p219).

Jones takes a more damning perspective on CSR (Jones, 1996). He argues that the primary value of CSR is to promote an ideology that strengthens the societal status quo by fostering a benevolent image of capitalism and reassuring stakeholders that their interests are best served by corporate policymakers. Farnsworth notes how CSR is increasingly being brought into the sphere of state welfare (Farnsworth, 2004). He expresses concern that CSR initiatives are unpredictable, patchy and highly dependent on continued profits since companies tend to view CSR in much the same way as other charitable projects. This is not the safest foundation for stable social programmes and policies.

## **2.7 Conclusion: liberalisation, means-testing, CSR and social tariffs**

While advocates and detractors of energy market liberalisation may dispute its benefits and costs, most accept that some consumer groups have benefited more than others. The points of contention relate more to the policy implications.

Ofgem, for example, argues that meter competition will help drive down ppm costs, while energywatch contends that a national smart meter<sup>15</sup> programme will level the playing field between the costs of different payment methods (Ofgem, 2003; energywatch, 2005c). Citizens Advice argues that more ppm consumers could be encouraged to change payment method, given that many now possess bank accounts (pers. comm.). The Government, Ofgem and energywatch want to encourage the 50% of consumers who remain with their original suppliers to switch companies and thereby benefit from the lower prices on offer (Ofgem, 2004b). Former energy minister, Brian Wilson, however, argued that “the benefits of price falls must not be restricted to those who switch, not least because if everyone starts to switch, the costs of administering this will outstrip the savings” (Wilson, 2003, p29).

These are contentious issues within mainstream regulatory and fuel poverty policy. They provide the backdrop against which price rises, the implications of price rises for fuel poverty policy and social tariffs need to be understood. For example, has liberalisation reduced the Government’s ability to protect low income consumers from the impact of price rises? To what extent can social tariffs give low income groups a ‘better deal’ within competitive markets, particularly in comparison with standard tariffs? Do meaningful social tariffs require extensive cross subsidy from other consumers and if so, will this distort the competitive market?

In assessing means-testing, the key issue should relate to the effectiveness of social tariffs at ensuring fuel is affordable to all. Do social tariffs require careful targeting and extensive means-testing or can more open or universal criteria apply? Is it appropriate for private fuel companies to decide eligibility criteria or should this be a role for the State? Are social tariffs stigmatising and demeaning for beneficiaries and if so, does this reduce take-up?

Given the reliance of social tariffs on CSR funding, sustainability is a key issue. How much impact and how many people can social tariffs realistically be expected to help, given the likely limitations on CSR budgets? If social tariffs are to play a role in fuel poverty policy, is it appropriate to rely on CSR or should the Government intervene to prescribe them? If the Government is to intervene, are there alternative or complementary policy options to social tariffs that it should first consider?

The research conducted for this study tries to answer some of these questions and suggest possible areas for further research where it cannot. Given that there is little research in this subject area and many issues that need exploring, the study decided to use qualitative techniques as its main point of approach. The next chapter provides more detail on the research methodology and why the specific research tools used were adopted.

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<sup>15</sup> See ‘glossary’ for definition.

### **3. RESEARCH METHODOLOGY**

The review of the literature suggested that there was little research on social tariffs in Britain. The literature that does exist is mainly descriptive, e.g. the DTI annual review of fuel company 'social initiatives' (DTI, 2005c), or in the form of guidance and principles, e.g. Ofgem, 2004a and energywatch, 2005a.

The ESP study represents the only substantial evaluation of social tariffs in Britain, conducted as part of a wider investigation into fuel company 'social initiatives' (ESP, 2005). However, the study says little about the implications of social tariffs for fuel poverty policy or about the pros and cons of means testing (although it does refer to 'effective targeting'). While it considers CSR in some depth, its main approach is to assess how well companies are managing CSR risks, rather than its adequacy for delivering social policy. This is not to criticise the study – it contains a considerable amount of valuable information and provides useful insights into the subject. However, it was designed to meet a different terms of reference to this study. The research for this study therefore aims to build upon ESP's work and help clarify future policy on social tariffs.

The review of the literature suggested that there were a wide range of unanswered questions relating to social tariffs. It also found sharp differences of opinion on factors of critical importance to social tariffs, such as the costs and benefits of energy liberalisation, the appropriateness of means-testing and the role of CSR in delivering social policy. The study therefore wanted to explore these issues in greater depth and to investigate how, and whether, social tariffs could play a greater role in fuel poverty policy. This suggests the use of research techniques that are interactive, developmental and allow the exploration of emerging issues; in other words qualitative research (Denzin & Lincoln, 1994).

#### **3.1 Research tools used by the study**

The study decided to use 'depth interviews' as the main research tool. 'Stakeholders' that have an interest in, or experience of delivering, or expertise on, social tariffs were identified as the active constituency. Depth interviews allow the researcher to explore issues with participants, generate ideas and capture data in its natural form (for example, viewpoints can be represented in participants' own words). They also allow a degree of flexibility so that individual responses can be probed and the researcher can be responsive to issues raised by participants (Legard et al, 2003).

The study also wanted to explore a number of key themes, identified through the literature review, with participants consistently. The study wanted to capture a diverse range of responses on these themes, so that commonalities, differences and patterns might be identified. Given, also, that the study includes an evaluative element (in terms of considering the adequacy of social tariffs), it was decided that semi-structured interviews would be more appropriate than a more unstructured interview style.

A small piece of secondary data analysis was also carried out to supplement the stakeholder interviews. The analysis examined the impact of the six companies' social tariffs on the fuel bills of three 'norm' households, using information supplied

by suppliers about their social tariffs in conjunction with energywatch's price comparison service. This enabled comparison of social tariffs across the different suppliers and with 'standard' tariffs. The exercise was intended to be illustrative only and not a full investigation of effectiveness. However, it provided some revealing context to the interviews in terms of showing what social tariffs might mean for individual beneficiaries. It also helped shape the discussion of policy options outlined in the final chapter of the study.

### **3.2 Selection of sample**

Purposive sampling was used to select the participants for the interviews. This approach allows the research to identify organisations and constituencies that display characteristics that are either known, or expected, to be pertinent to the research topic. Participants are therefore selected according to their 'symbolic representation', rather than statistical representation (as with quantitative research), thus producing a diverse and rich range of data on the topic under investigation (Arber, 2001).

Five broad constituencies were identified as particularly relevant to the issue of social tariffs. Participants were then selected on the basis of representing particular interests within each constituency (in this sense, a two tier approach was taken to sample selection).

The first broad constituency identified was the 'Government': important because of its role in shaping past policy on liberalisation and fuel poverty and for potentially influencing future policy on social tariffs. The second constituency was 'regulatory bodies': important because of their role in determining the rules under which the energy industry operates and for ensuring consumer interest is represented within this. The third constituency was fuel 'suppliers': the research interviewed representatives from the six main suppliers in Britain and their trade association, the Energy Retailers Association.

The fourth constituency was sectoral 'interest groups': these either represent the interests of specific groups likely to gain from social tariffs or have an interest as energy industry employees. The study deliberately selected two organisations that have large numbers of low income members within this constituency<sup>16</sup>. The fifth constituency was 'low income groups', with a particular interest in issues faced by all low income energy consumers (rather than one specific group). While there was considerable overlap between the 'interest group' and 'low income' constituencies, the research hypothesised that the two constituencies may have different perspectives on certain issues and as such it may be useful to distinguish these.

The study eventually identified 24 participants as suitable candidates for the research. Appendix 2 gives more information about the individual organisations from which participants were selected.

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<sup>16</sup> The trade union interviewed, UNISON, is also a membership organisation. While its main role is to represent the interests of energy industry (and many public sector) employees, it can also draw upon the direct experience of fuel poverty and low income faced by many of its members, particularly those working in low paying service jobs.

### **3.3 Fieldwork strategy**

The interview schedule was designed to elicit participants' perspectives on the following seven broad themes relating to social tariffs:

1. their value as a mechanism for making fuel more affordable
2. the extent of their impact on fuel affordability
3. which households should receive them
4. the responsibilities of key stakeholders
5. their sustainability
6. monitoring their impact
7. alternative policy approaches

The questions were designed to engage participants on a range of issues raised by the literature review and to generate ideas on topics for further research and alternative policy options, in line with the study's objectives (see Appendix 3).

The interview schedule was piloted with two people (also identified as appropriate participants) that the researcher has worked with for a number of years. As a result, several questions were removed and the ordering of questions slightly changed. However, the schedule did not require revision of such a scale that it was not possible to include the two participants' responses in the dataset.

The interviews were conducted over a 2 month period (October and November 2005). Potential interviewees were contacted by email or telephone to seek their participation in the research and to arrange a convenient date and time for the interview, if they agreed to participate. A 'participant information sheet' was sent to participants prior to interview (see Appendix 4).

All respondents identified as suitable for interview (bar one) either agreed to participate themselves or suggested a more suitable representative. Most occupied a senior position in their organisation, including two at Chief Executive level. The one person targeted who was not interviewed was an MP identified as likely to have a particular interest in the topic. The problem was 'non response', rather than 'refusal to participate'. A recently retired MP (now a Lord) with particular expertise and knowledge of fuel poverty and the energy industry was therefore interviewed instead.

Interviews were either conducted over the telephone or face to face. Participants' responses were typed straight into an electronic version of the schedule, circumventing the need to tape and transcribe interviews. Participants responded very positively to the interviews. Many discussed the issues in much greater depth than originally anticipated and welcomed the study.

### **3.4 Ethical considerations**

The importance of addressing ethical considerations within research has recently received increasing attention. The Social Research Association notes that "this is partly a consequence of legislative change in human rights and data protection, but also a result of increased public concern about the limits of inquiry" (SRA, 2005, p7). The SRA suggests that as well as obligations to society, research should fulfill

obligations to funders, colleagues and subjects and has issued guidelines to help researchers make sure that research addresses the full range of ethical considerations.

The study addressed ethical considerations in a number of ways. A description of the research was submitted to Bristol University School for Policy Studies' ethics committee. This described the procedures that would be adopted to ensure participants gave their informed consent (e.g. use of the participation information sheet) and included a copy of the draft schedule to demonstrate the non-intrusive nature of questions. Measures were taken to ensure that the data collected was secure and could not be accessed by people outside the researcher's organisation, e.g. password protection, security measures and data back-up. Finally, the research made particular efforts to include the perspectives of two organisations that consist of large numbers of people on low incomes.

### **3.5 Analysis of findings**

'Framework' was used to analyse the interview findings. The technique involves constructing a 'thematic framework to classify and organise data according to key themes, concepts and emergent categories' (Ritchie et al, 2003). The framework consists of a series of main themes, sub-divided into related subtopics. Once the framework is constructed, the rigorous and systematic analysis of data becomes much more straightforward. The approach is described in diagrammatic form in Appendix 5.

The main themes and sub-topics (index) were selected through a thorough investigation of the data from the stakeholder interviews and the identification of recurrent themes (see Appendix 6). The data was labelled according to the index and transferred to an Excel spreadsheet chart. Each sub-topic was allocated a column and each participant a row in the spreadsheet. The spreadsheet provided the key source document for analysis (a small sample extract is provided in Appendix 7).

A series of spreadsheets were produced from the source chart to develop the descriptive and explanatory accounts. These were based on either patterns or categories revealed through analysis of the data itself or through reference to the issues identified by the literature review. Appendix 8 gives an example of the sequential steps used to analyse one particular theme.

The findings presented in Chapter 4 therefore represent the summary of this process. The framework approach allows a clear audit trail to be traced back to the original interviews and is designed to help ensure the credibility/confirmability of the research (Denzin & Lincoln, 1998).

## 4. RESULTS

This chapter presents the findings of the stakeholder interviews. A large amount of valuable data was collected through the fieldwork, enabling many fruitful lines of inquiry. This required some difficult decisions about which specific findings should be presented. Those presented below attempt to address the tension between findings considered significant to a 'lay audience' and those likely to be of more interest to fuel poverty and energy policy specialists.

The 24 participants interviewed were selected according to five broad constituencies – Government (G), regulatory bodies (R), interest groups (I), low income groups (LI) and suppliers (S)<sup>17</sup>. Much of the analysis below compares and contrasts the responses of participants according to these constituencies. The quotes presented are mostly attributed by the participant's constituency. The participant's case number is also given (e.g. G1), so that it is possible to recognise quotes from the same participant throughout the text. However, it should not be possible to identify the specific organisation the participant represents. In a few cases, where the perspectives of organisations are well known and documented, quotes are attributed to individual organisations.

### 4.1 What is a 'social tariff'?

The research sought to establish a common understanding of the term 'social tariff' by inviting participants to provide their own definition. Most defined it as a tariff only available to certain vulnerable or low income households and designed to help them pay for their fuel. However, there were some interesting variations. For example, one participant defined it as: *"a tariff where vulnerable customers pay less, relative to other customers, than their relative costs of supply or towards the lower end of the range of their relative costs of supply"* (G4). This reflects the position that tariffs should broadly reflect costs, while allowing a degree of flexibility in doing this. The same person later argued that the allocation of costs to cost centres was *"an art, not a science: companies should therefore err towards the generous in the case of vulnerable consumers"*. This implies that the potential impact of social tariffs can only be limited, given the context of competitive markets.

Another participant defined social tariffs as: *"represents a solution for those whom the market system fails"* (I1), while another suggested: *"a tariff for the 'poor'; tends to emphasise the 'deserving poor'"* (LI3). The notion of social tariffs as compensating for market failures or of having charitable connotations were important themes throughout the interviews and will be discussed later. Another definition suggested: *"a pricing structure which encourages people to consume energy up to a level which enables them to keep their homes warm but at the same time not excessively expensive, ideally so that they don't need to spend more than 10% of their income"* (G3). This clearly relates social tariffs to fuel poverty in the sense that they should encourage people to spend more on fuel so that they can keep their homes warm but not so much that they fall into fuel poverty. This notion of linking social tariffs to fuel poverty was a common theme for many respondents.

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<sup>17</sup> See Appendix 3 for list of organisations within each category.

The quotes reflect a range of attitudes towards social tariffs and their relationship to fuel poverty policy. They raise such issues as ‘what are they meant to achieve?’, ‘who are they for?’, ‘what is their relationship to the competitive market?’, ‘how should they be funded?’ The following will explore these issues in more detail, considering first participants’ views on the value of social tariffs as a policy instrument.

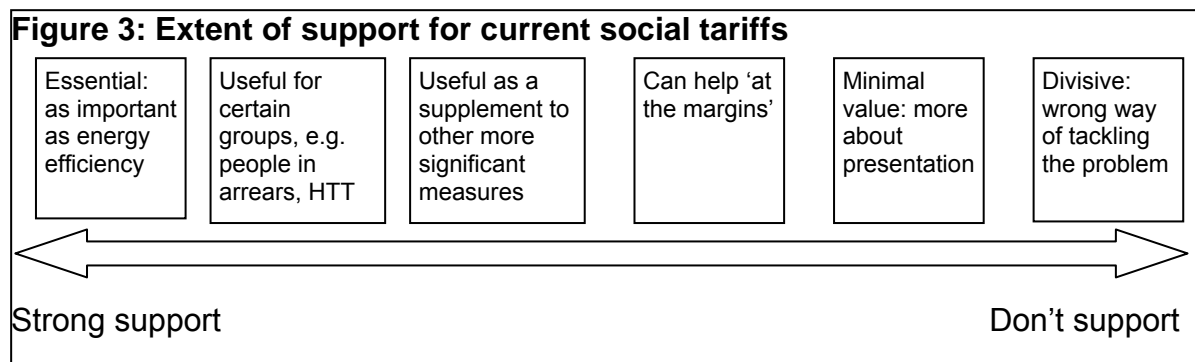
## 4.2 The value of social tariffs

Participants were asked whether they supported the concept of social tariffs as a mechanism for making fuel more affordable for low income and/or ‘vulnerable’ consumers. Most supported the concept, although the significance they placed on it varied. Two participants disagreed. One was completely opposed to the concept and regarded social tariffs as “*socially divisive ... (and) oppressive in the context of chronic inequalities*” (L14). The other regarded the current offers as having minimal value and “*more about presentation than substance*” (L13); however, she felt they may have more potential in the future if prescribed by Government. Four participants (all low income or interest group) commented that it was difficult to assess the value of social tariffs because nobody has evaluated the current products available.

Most participants thought it important that social tariffs were offered as part of a package of measures (e.g. benefit entitlement checks, energy efficiency), although one Government representative felt they had intrinsic value in their own right. Most highlighted energy efficiency as the long term, sustainable solution to fuel poverty, with social tariffs complementing this to varying degrees. For example, one participant stated: “*the most sustainable way of helping people in fuel poverty is to make sure their homes are energy efficient*” (R2).

Three participants independently likened social tariffs to ‘band-aid’ or ‘sticking plaster’ and two others argued that they could only help ‘at the edges’. They saw social tariffs as tackling the symptoms of fuel poverty, while energy efficiency tackled the causes. One participant expressed concern that social tariffs might “*disguise a wider problem of people not able to heat their homes*” (L16). Two participants felt that social tariffs could provide a stop-gap solution until properties were improved and three suggested targeting them at households living in hard to treat properties, where there are few cost effective energy efficiency measures available. One participant considered social tariffs should go hand in hand with energy efficiency, commenting that: “*you can’t have one without the other*” (I3).

Stakeholders’ perspectives on the value of social tariffs for fuel poverty policy can be conceptualised as falling on a spectrum, ranging from ‘essential’ to ‘complete disagreement’. Figure 3 below represents this diversity of opinion in diagrammatic form. It suggests that while most participants felt that social tariffs had some sort of role to play in fuel poverty policy, there was little consensus about the precise nature of this role. Some participants distinguished the current role played by social tariffs, considered very limited, and their potential future role, considered substantial. However, this potential was only considered realisable through Government intervention. Perspectives on the extent to which the Government should intervene are discussed later.



The diversity of opinion illustrated by Figure 3 was a constant theme during the interviews. Perhaps this is not surprising. Social tariffs are a relatively new phenomenon that has emerged from suppliers themselves, rather than as a policy initiative from Government. However, suppliers made clear during the interviews that price rises were the main stimulus for initiating social tariffs, reinforced by stakeholder (particularly Government and regulator) exhortation on suppliers. To quote a Government representative: "*Supplier chief executives like to demonstrate to Ministers that they are doing things*" (G1).

### 4.3 Differences between social tariffs

All suppliers have now set up at least one social tariff<sup>18</sup>, although their design varies considerably, e.g. by eligibility criteria, size of discount provided or longevity of discount. Participants were therefore asked to give their perspectives on the current social tariff products provided (see Appendix 1).

Many participants were reluctant to express a preference. In some cases this reflected their institutional position. For example, ERA represents all the major suppliers and cannot be seen to favour a particular product. ERA argued that the "*availability of a number of different social tariffs is entirely appropriate in a competitive market*" (S2). The four Government participants also valued the ability of the market to encourage innovation and experimentation, although one felt that "*the Government should prescribe, once a proper model is established*" (G3).

One of the Government participants referred to the predictability of Staywarm as an added benefit for households on fixed budgets, as well as its low cost. Ofgem stated: "*(it is) debatable whether Staywarm is a social tariff ... Powergen argues that it is cost reflective: its operating costs are lower because there is no meter reading and its margins are lower*". Energywatch only considers the social tariffs provided by EDF and SSE as meaningful (see Appendix 1). This is because the other products did not meet its criteria for social tariffs, for example because they were only temporary (e.g.

<sup>18</sup> Scottish Power only provides a social tariff to a small number of consumers (see Appendix 1). The representative interviewed referred to research it had commissioned which asked consumers whether they would prefer the company to set up a social tariff or a charitable trust. Most consumers opted for the latter. The representative also stated that the company had raised ppm prices at a lower rate than other tariffs, thereby reducing the differential.


price freezes) or were targeted at household type (e.g. older people), rather than specifically at low income households<sup>19</sup>.

Of participants expressing an opinion (outside suppliers), the ‘% discount’ products received most support, with the fixed price bill (i.e. Staywarm) the second most popular option. Price freezes and rebates were perceived by low income and interest groups as only providing temporary reprieves, while poverty for most low income households was a long term problem. One participant dismissed price freezes as “*just a gimmick*” (I3). Suppliers, not surprisingly, supported their own products, although most considered it healthy that the market provided a diverse range of products. However, one supplier felt that: “*Some social tariffs are just fudging the issue; there is a danger that they are just badging what the company does anyway*” (S3).

#### 4.4 Eligibility and targeting

Participants were asked who they considered should be eligible for social tariffs. Suppliers tended to list the groups they currently provided social tariffs to, although several referred to other groups that they might target in the future, either as a result of product development within the company or as beneficiaries of the proposed national social tariff (see Appendix 1). Table 1 below lists the groups that were identified by participants as either currently eligible, or were considered should be eligible, for social tariffs:

**Table 1: Social tariff eligibility criteria**

Group	Type of system	No. benefiting
PPM users on Priority Service Register (PSR) <sup>1</sup> (ST1)	Universal	relatively few  many
All people on PSR (ST2)	Universal	
People on benefits, plus additional criteria:	means test	
– fuel poor		
– receipt of pension credit		
– severe fuel poor (ST3)		
– hard to treat properties		
– deprived areas (ST4) <sup>3</sup>		
– people in arrears (ST5)		
All people in certain deprived areas (ST6)	Universal	
All older people, plus no. of bedrooms & consumption limit (ST7)	Universal	
People on benefits	means test	
All older people	Universal	
All vulnerable <sup>2</sup>	Universal	
People on benefits, low waged & vulnerable	means test	
All consumers	Universal	

**Notes**

(ST1-7) refers to existing social tariffs

<sup>1</sup> See glossary for definition of PSR

<sup>2</sup> ‘Vulnerable’ interpreted as older people, disabled people & families with young children

<sup>3</sup> There are more consumers on ST4 than ST6 due to the larger number of deprived areas targeted by ST4

Table 1 demonstrates that means-tested systems do not necessarily result in fewer consumers than universal systems. This is because some universal systems apply other forms of restriction, such as residency within certain deprived areas or registration on PSR. The (low income group) participant that suggested ‘all

<sup>19</sup> This is based on two reports provided by energywatch after the interview (energywatch, 2005a & 2005d).

consumers' classified 'rising block tariffs'<sup>20</sup> as a social tariff: thus all consumers would benefit from the first low cost 'block' of fuel. The research, however, did not include 'rising block tariffs' within its original definition of social tariffs (see Appendix 4).

Table 1 above gives an indication of 'coverage' but not 'effectiveness'<sup>21</sup>. A full evaluation of effectiveness would require further research. However, one participant (low income) observed that current social tariffs tend to either restrict eligibility to a small number of households but provided reasonably generous benefits or covered a larger number of households but provided only limited benefits. This suggests that there is a trade-off between coverage and effectiveness.

The notion of 'trade-off' reflects the discussion on universalism versus means-testing in social security in that it presumes there is only a limited 'pot' available for social tariffs (Creedy, 1996). The analysis of the interviews revealed many other parallels with this discussion. For example, most participants considered stigma, pride, lack of information, complexity and charitable connotations were the main barriers to take-up of social tariffs – issues very pertinent to take-up of means-tested benefits (Barnes, 1999). The NPC participant argued for universal provision of social tariffs for older people, on the grounds that "*means testing and older people don't mix*", giving the problems of Pension Credit take-up as an example of this.

For most fuel company representatives, 'targeting' was identified as a major difficulty. One representative commented that: "*a lot of time and effort is spent on trying to find and identify customers, rather than actually helping them*" (S6). Another representative commented that "*all companies are spending money on finding people (i.e. low income consumers) ... it would be useful to set up one central database (that is accessible to all companies)*" (S4). Again this highlights the issue of high administration costs commonly associated with means testing and targeting (Economist, 2002).

Some issues were more specific to social tariffs. For example, participants (including fuel companies) identified barriers to take-up, from the perspective of beneficiaries, as mis-trust of fuel companies, concerns about revealing personal details to private companies, concerns about being 'locked in' to a tariff that might prove less generous in the future and experience of existing social tariffs, such as Staywarm which is less generous than it used to be. However, one participant commented: "*if companies and the regulator are serious (about social tariffs), they should put as much publicity into promoting them as they put into encouraging people to switch (supplier)*" (L13).

There was one notable exception among fuel company representatives, with respect to the pre-occupation with targeting. This participant referred to the "*social customers market*" (S3). The company focused on identifying specific characteristics of 'vulnerable' consumers, such as brand loyalty or long term profitability, and developing products that were tailored to these characteristics<sup>22</sup>. This approach

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<sup>20</sup> The provision of an initial low cost block of fuel to all consumers, with subsequent blocks provided at higher cost than current prices.

<sup>21</sup> 'Coverage': defined as the number of eligible households; 'effectiveness': defined as the ability of social tariffs to have a meaningful impact on households' fuel bills.

<sup>22</sup> This would reverse general supplier practice to date, whereby 'non-switchers' tend to pay the highest prices.

allows social tariffs to be openly advertised to ‘niche’ vulnerable customer markets. In this way, determining eligibility is either not an issue or just requires the application of administratively simple, non means-tested criteria.

This approach to social tariffs is essentially about developing a business case for social tariffs, albeit with lower short term profitability (but potentially, reliable longer term profitability). The approach differs from other companies, which tend to regard social tariffs as part of their CSR obligation – a gesture to stakeholders that companies are ‘doing their bit’ for fuel poverty. However, it is possible that ‘business case’ social tariffs are less generous than those restricted to consumers deemed suitable for ‘help’. This can only be determined through a full evaluation of effectiveness and is therefore beyond the scope of this research.

In general, suppliers, regulatory bodies and Government representatives advocated restrictive eligibility criteria to ensure target efficiency. This is because they saw social tariffs budgets as fixed and small scale (due to dependency on CSR funding). Social tariffs therefore required careful targeting to ensure they reached a limited number of clients. This reflects similar discussions on means-testing in social security (Nelson, 2004).

Low income and interest groups tended to advocate more generous eligibility criteria and were less concerned about social tariff expenditure. However, such groups also considered that the full potential of social tariffs could not be realised within current competitive energy market arrangements. Most therefore advocated some form of Government intervention to ensure social tariffs were long term and had sufficient impact to significantly reduce fuel poverty. The relationship between social tariffs and competitive markets, funding arrangements and Government policy is discussed below.

#### **4.5 Social tariffs and competitive energy markets**

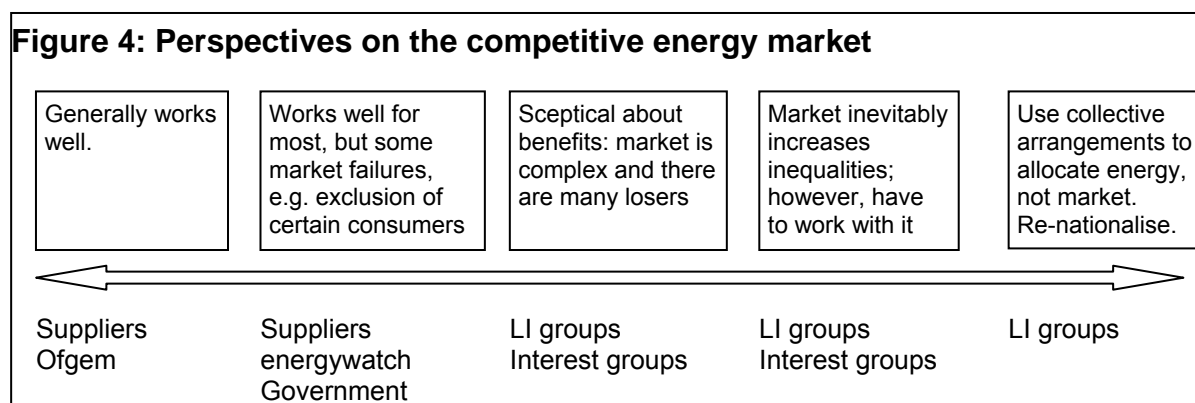
There were considerable differences between participants with respect to their perspectives on the competitive energy market. The Government, regulatory and supplier participants all regarded social tariffs as a welcome development within the competitive market, although they differed over the nature of the relationship between social tariff consumers and the market. For example, a Government representative stated: *“we always knew that there was going to be a bedrock of people who wouldn’t switch (fuel company) .... they should at least get the best deal (in terms of a social tariff) from their existing supplier”* (G1). By contrast, suppliers portrayed social tariffs as demonstrating the industry’s willingness to contribute towards the problems faced by low income consumers, problems that were brought about by poor housing, rather than inequitable markets.

The Ofgem representative regarded current social tariffs as: *“mostly just band-aid initiatives ... and ... not really social tariffs, more just short term offers of help”* and preferred to call the current offers, ‘quasi social tariffs’. He regarded ‘true’ social tariffs as a Government-imposed *“lower price tariff for certain categories of consumers, as exists in France”*. He was reluctant for the Government to introduce such tariffs, arguing that they would distort the market. This reflects Ofgem’s position

that the energy market is generally working well, with most groups taking advantage of the opportunity to switch (Ofgem, 2004b).

Low income and interest groups tended to view social tariffs as providing a buffer against the competitive market. Thus, social tariffs were considered to: “help people who had lost out under the competitive market” (I3) or “represent the only way of dealing with the problem in the context of the competitive market and Ofgem’s abandonment of price controls” (LI5). Interestingly, one participant commented that: “the idea of a market for social tariffs is not likely.” (LI6). In other words, low income customers cannot ‘shop around’ to find the best social tariff deal that suits their circumstances. Companies decide which of their existing customers should receive a social tariff and either invite or proactively transfer them onto the tariff. The social tariff(s) beneficiaries end up on is therefore a case of ‘luck of the draw’ in terms of the supplier(s) they purchase their fuel from.

Participants’ views on the benefits of the competitive market can be conceptualised as a continuum, ranging from strong support to advocacy for alternative approaches. Figure 4 below presents this continuum in diagrammatic form:



While all supplier representatives were enthusiastic supporters of competition, there was a tacit recognition by some that a section of consumers was not benefiting. This was reflected in the support three supplier representatives gave to the proposal to set up a single national social tariff (see Appendix 1), although one stated this was just a personal opinion. The proposal is far-reaching in that it would remove a section of consumers from the competitive market or as one participant put it: “the differentiator (between companies) becomes service, not price” (S6). It implies that competition has not worked for certain consumers (generally those on lower incomes) or, more precisely, certain consumers need to be withdrawn from the market under the current situation of rising prices.

The three supplier representatives opposed to the proposal did so because it meant relinquishing company control over the products they offered, although one stated that he “was not dead set against it” (S6). The ERA, DTI and Ofgem (all key players should the proposal go any further) were interviewed before the researcher was made aware of the proposal and therefore did not give opinions.

## 4.6 Funding social tariffs

A key principle underpinning competitive energy markets is that prices reflect costs. Social tariffs tend to 'strain' this principle, although participants differed on the extent to which they felt this mattered. Participants were asked to give their views on how social tariffs should be funded. Some placed funding within the context of CSR. For example, one stated *"doesn't cost suppliers anything - CSR costs can always be recovered from the customer base"* (G1). Another stated: *"forms part of decision-making on all CSR expenditure ... perhaps the company might spend more on social tariffs and less on sport if there were more women on the senior management board"* (S5).

Other participants viewed cross subsidy from other consumers as the main funding source. For example, one stated: *"a certain amount of cross subsidy is OK; however, if you get it wrong, this could lead to a transfer away from poorer consumers"* (R1). Low income and interest groups were more relaxed about cross subsidies. For example, one argued: *"since network services are an essential good, cross subsidies are inevitable - shouldn't get precious about this"* (L12) and another argued: *"cross subsidises (of social tariffs) from other consumers should be seen in the round of special deals for more affluent consumers"* (I2).

The Ofgem representative stated: *"there are two reasons that companies are limited in what they can do: one, the Competition Act limits the extent to which companies can cross subsidise, for this reason Ofgem issued guidance, and two, what is in their commercial interest to do."* He went on to say that Ofgem was *"not in favour of cross subsidies since they distort the market"*.

Several participants argued in favour of Government funding or part funding of social tariffs. For example, one argued *"the costs should be shared between the Government and companies"* (S1), while another stated *"if they are to be a matter of Government policy, the Government should pay - would give the Government a sense of ownership of social policy"* (I3). A Government representative admitted: *"in reality, (social tariffs) do represent a tax through the back door"* (G1).

The above discussion suggests that current social tariffs are funded through either CSR and/or cross-subsidies, while some favoured an element of Government or general taxation funding in the future. However, one participant argued that *"Government subsidy should only be the last resort - best going into (energy efficiency) measures for houses"* (G4). Another (interest group) commented that Winter Fuel Payments represented an indirect social tariff and these were funded by Government.

The Government participants and most suppliers made little distinction between CSR and cross subsidy. The general view was that since CSR is paid for by consumers and CSR is used to fund social tariffs, social tariffs are effectively cross subsidised by other consumers. However, Ofgem made a clear distinction between the two. In Ofgem's conception, CSR is about improving company brand and image; a small short term profit sacrifice to fund social tariffs therefore helps increase long term profitability and market position. Cross subsidies, on the other hand, represent larger scale transfers of money between different consumer groups. This distorts the

market because prices do not fully reflect costs (Littlechild, 2000). Consequently, consumers are not sent the right price signals and are therefore not able to make informed choices.

#### 4.7 The extent of prescription required

The perceived lack of serious funding and the vulnerability to changes in company CSR strategies led many participants to call for Government intervention to prescribe social tariffs. However, other participants were implacably opposed to this. Opponents argued, for example, that *"the Government shouldn't try to ram it (social tariffs) down suppliers' throats – it should let the market work"* (S2) and *"if the Government were to be more prescriptive, it is likely to get it wrong"* (R1). Some regarded exhortation or 'moral pressure' as sufficient. For example, one stated: *"the departmental position is that each company should have something of this kind (social tariff), although it is for companies to decide the shape of it"* (G1).

Advocates of intervention argued that: *"the Government should take a lead and oblige all suppliers to offer them; this would represent a positive step forward"* (I1) and *"private companies shouldn't have sole responsibility for determining how people facing difficulties paying fuel bills are dealt with – this should be a matter for social policy"* (LI3). Two suppliers supported 'light touch' intervention. One suggested that *"the Government should provide a framework for social tariffs; make it a regulatory obligation for companies to offer, but shouldn't set the rules"* (S3). The other supported the single national tariff proposal and felt this would only come about if the Government led it.

Two participants thought that Government intervention was not necessary now but might be in the future if prices continued to stay high. However, a third argued *"eventually, the Government and Ofgem should bite the bullet and be prescriptive"* (G3). He went on to advocate the establishment of a national pilot, based on a voluntary partnership between the Government and interested suppliers. This would run for 18 months (to ensure it covered a winter period) and aim to develop a working model that is effective, inexpensive to run and ensures that no single supplier is disadvantaged. The Government would probably need to prescribe the resultant model; however, it could 'sweeten the pill' by providing tax breaks to suppliers.

Participants fell into 5 categories, with respect to their perspectives on the need for Government intervention, as illustrated by Figure 5:

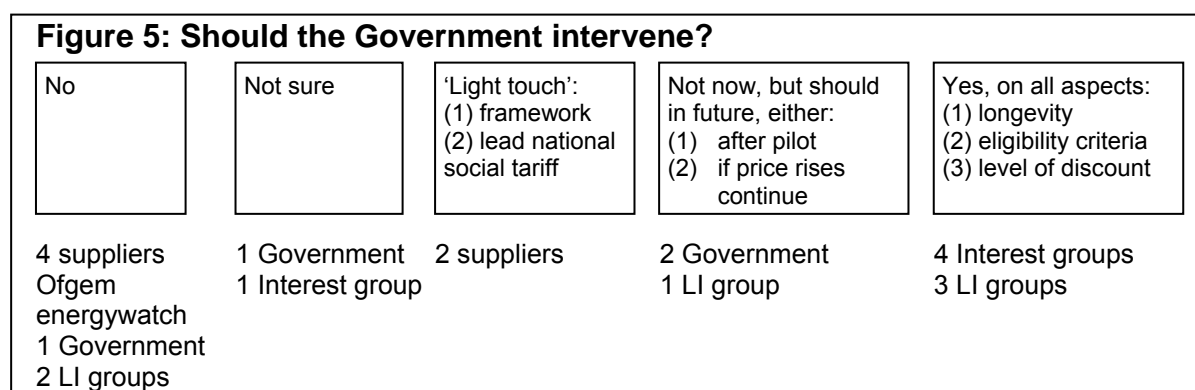


Figure 5 illustrates that Ofgem, energywatch and most suppliers were opposed to intervention, while most interest and low income groups were firmly in favour<sup>23</sup>.

This division reflects wider debates on the role of CSR vis a vis the State in delivering social policy (Warhurst, 2004; Farnsworth, 2004). Participants suspicious of CSR, for example, argued that *"companies can rip up any obligations or guarantees given; leaves vulnerable customers high and dry"* (I4) and *"if (social tariffs are) not prescribed, companies can withdraw them or change them at whim – this is not sustainable."* (L13). Another argued: *"the various changes over the years to Staywarm illustrates the problem ... they are always vulnerable to, for instance, the tariff creeping up or changes to eligibility criteria"* (L11). Supporters of CSR by contrast stressed the benign role of the private sector and its ability to innovate. For example: *"companies know more about consumers than the Government"* (R1) and *"the Government shouldn't prescribe – otherwise would restrict choice and stop innovation"* (S2).

Further exploration of the responses of opponents of intervention suggested that, while new legislation or regulation was considered unacceptable, other forms of Government or regulatory involvement would be welcomed. All felt that the DWP could do more to help identify potential beneficiaries, particularly with respect to 'non-pensioners'<sup>24</sup>. Suppliers also accepted Ofgem monitoring social tariffs, providing this was not compulsory or too onerous. Supporters of the industry-led national social tariff proposal advocated relaxation of the '28 day rule'<sup>25</sup> and part funding through EEC, both of which would require changes to current regulatory rules. A Government representative stated that: *"there is a long history of the Government using the domestic energy market for social and environmental purposes and the market accepts this (role)"* (G1). He went on to explain that this had been achieved without direct intervention.

The above discussion suggests that while there were sharp differences over the necessity for Government intervention, even opponents acknowledged the need for some form of Government and/or regulatory involvement. It also suggested a mid-way position of the Government and industry working together to establish a single workable model in the future.

#### 4.8 Alternatives to social tariffs

A number of participants were not certain whether public policy should go down the road of social tariffs; other policy initiatives were considered potentially more effective. Participants were therefore asked to suggest possible alternative approaches to social tariffs. Five different policy areas were considered: tariff, fuel

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<sup>23</sup> Of the 2 low income groups opposed to intervention, one disagreed with social tariffs and the other felt that there were alternative, more effective ways of intervening.

<sup>24</sup> However, most acknowledged that the DWP was becoming more helpful in promoting fuel company support for pensioners. This probably reflects the different cultures within the Pension Service and Job Centres Plus, whereby the former seeks to encourage benefit take-up among older people while the latter focuses more on getting people into jobs, with benefits take-up taking lower priority (pers. comm. with Pension Service representative).

<sup>25</sup> This refers to the regulatory requirement that consumers only have to give 28 days notice of their intention to switch supplier.

subsidy, energy efficiency, income and ‘other’. This section summarises participants’ proposals.

#### 4.8.1 Tariff proposals

Table 2 below lists participants’ suggestions for tariff initiatives.

**Table 2: Alternative tariff proposals**

Proposal	Constituency	Comments
Rising block tariffs (see footnote 20): <ul style="list-style-type: none"> <li>• May support</li>   <li>• Not sure</li>   <li>• Against</li> </ul>	2 Government 1 Interest group 1 LI group  1 Government 2 LI groups 1 Government 4 Interest group 2 suppliers	Requires legislation Because it would encourage energy efficiency investment, although acknowledged that low income high users would need compensation. Wanted to first see the results of research on ‘winners’ and ‘losers’ Because of impact on low income high users and complexity
Smart metering <sup>1</sup>	3 suppliers	May be confusing for some ‘vulnerable groups’
Equalise ‘in area’ with ‘out of area’ electricity tariffs	1 Government	End practice of suppliers charging consumers in traditional ‘territories’ more than consumers outside these areas
Reduce ppm costs <sup>1</sup>	1 Government, 1 Interest group 2 LI groups	So that ppm tariffs are closer to Direct Debit tariffs
Reform banking system so that it is easier for low income hh/ds to use Direct Debit	1 Government	For example, establish ‘buffer zone’ so that penalties not imposed on temporarily overdrawn accounts
Modernise Fuel Direct <sup>1</sup>	2 Reg. bodies 3 suppliers	Requires initial investment by DWP to reform and computerise system
Remove standing charges	1 Interest group	Because of impact on low income low users
Allocate energy costs to h/hds such that they face a fair & equal burden with respect to the price & income relationship	1 LI group	Requires legislation and radical reform of regulatory system
Encourage ppm consumers to switch to Direct Debit	1 LI group	Many ppm users were considered locked into ppm unnecessarily

**Notes:**

<sup>1</sup> See glossary for explanation of terms

Most of the proposals in Table 2 were advocated as complementary to social tariffs, rather than as alternatives. The two exceptions were rising block tariffs and the proposal to overhaul the charging system to reflect social justice principles. The NCC representative argued that rising block tariffs would “*join up policies for sustainability with fuel poverty policy*”. Two further participants also liked the universal element in that all households would benefit from the low cost first block and there would be no need to apply means tests. One of the Government participants interested in the proposal thought it “*might spur action by low income high users, for example move house if they were under-occupying*”<sup>26</sup> (G1). However,

<sup>26</sup> See ‘glossary’ for definition of under-occupation.

the Government appears to have dismissed rising block tariffs on the grounds that they went “against Government policy of not intervening in energy markets and because of their potential complexity” (UK Government, 2005)<sup>27</sup>.

The advocate of radical reform argued that “energy is highly income inelastic: people want a certain amount whatever their income – this characteristic of energy undermines the theory of cost-reflective pricing” (LI4). A number of other respondents (all low income and interest group) also did not like the use of market arrangements for allocating energy services (see Fig 3 above). However, most considered it highly unlikely that a replacement system would be introduced in the near future and therefore sought reforms that co-existed with market arrangements.

#### 4.8.2 Fuel subsidies

Fuel vouchers represent an alternative approach to subsidising fuel to social tariffs. Vouchers would be paid to beneficiaries who could redeem them either against fuel bills or as a payment towards energy efficiency measures (one supplier suggested that suppliers would be likely to redeem vouchers at a higher ratio than 1:1, if vouchers were spent on energy efficiency).

There was considerable interest from some participants in fuel vouchers. This is because vouchers appear to provide, in the words of one participant, “a much less costly way of reducing fuel poverty (statistically) than raising income” (R2)<sup>28</sup>. Supporters of vouchers suggested either converting winter fuel payments (WFP) to vouchers or paying WFPs direct to fuel companies.

Table 3 below summarises participants’ perspectives on vouchers:

**Table 3: Alternative fuel subsidy policies**

Fuel vouchers		
Opposed	Worth considering	Convert WFP to vouchers/ pay WFP direct to companies
2 Government	1 Government	1 Government
4 interest groups	1 Interest group	2 regulatory bodies
4 LI groups	2 suppliers	4 suppliers

Table 3 clearly demonstrates that all suppliers and regulatory bodies favoured vouchers (or direct payment of WFPs to companies), while almost all low income and interest groups were opposed. One participant, for example, argued that “Government policy would be better directed towards setting up a voucher system than prescribing social tariffs” (R2). Opponents of vouchers considered them demeaning, stigmatising and unnecessarily complex. The Government opponent

<sup>27</sup> This is based on the Government’s response to a House of Lords inquiry that recommended the Government explore establishing ‘lifeline tariffs’. These are similar to rising block tariffs.

<sup>28</sup> The explanation for this relates to the standard fuel poverty definition: ‘required fuel costs (R)/income’ (I) ≥ 10%, where R = the amount of fuel required to maintain adequate heating and other energy costs. Thus, a £100 (for example) fuel voucher that is spent on reducing a typical R value of £500pa nominally leads to a bigger reduction in fuel poverty than £100 spent on raising a typical I value of £10,000pa. Of course, if the household spent the extra £100 income entirely on fuel, the impact would be the same as providing £100 in the form of a fuel voucher.

argued: "energy interventions need to take into account people's ability to afford all living costs – mustn't work in isolation" (G2). In effect, people should be allowed to decide for themselves how to allocate their household budget to meet needs, rather than the Government determining which element should take priority.

It could be argued that suppliers are structurally inclined to favour vouchers or direct payment of WFPs to suppliers because it guarantees WFPs are used to pay fuel bills, rather than, to use an often quoted cliché, buy Christmas presents. Opponents argued that older people should have a choice over how they spend their benefits and that WFPs need to be understood within the context of pensions policy<sup>29</sup>, rather than fuel poverty policy.

### 4.8.3 Income policies

All low income and interest groups and some suppliers argued that benefits, pensions, minimum wage etc should ideally be sufficient to ensure that fuel was affordable to all households without the need for social tariffs. Low income and interest groups who supported social tariffs did so on the pragmatic assumption that the Government was not likely to raise incomes by the amounts required. One Government participant, suggested that, since "*income measures have made the biggest impact on fuel poverty, we are probably going to need more if the Government is to hit its 2010 (Fuel Poverty Strategy) target*" (G1). Another Government participant referred to the "*tensions between the relative priority given to different forms of fuel poverty intervention*" (G2). These statements refer to the three main factors that influence fuel poverty levels, i.e. income, energy efficiency and fuel prices.

A number of participants referred to the importance of maximising benefit take-up, including several suppliers who went on to refer to their benefit entitlement check service. Several participants argued for reintroducing 'hard to treat' payments for claimants living in properties that were expensive to heat, as existed prior to the 1988 social security reforms.

### 4.8.4 Energy efficiency policies

Section 4.2 has already commented on the importance most participants placed on energy efficiency policy and its relationship to social tariffs. This section therefore only gives a brief overview of participants' perspectives.

Many felt that the Government could do far more to improve energy efficiency, referring to Britain's legacy of poor quality, thermally inefficient housing. One low income group and one supplier advocated bringing all energy efficiency schemes together into one single national programme that would be available to all households, with the level of household contribution determined by a sliding scale based on household income. Several participants considered social tariffs should be targeted at low income households in hard to treat properties. They argued this

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<sup>29</sup> Very briefly, it is argued that WFPs, as with free TV licences and bus passes, were introduced to compensate for the Government's failure to link increases in the State pension to the average increase in earnings.

would be more cost effective than trying to improve such properties through expensive energy efficiency measures.

A number of suppliers called for reform of the EEC so that it had a bigger impact on fuel poverty and complemented, rather than competed with, Warm Front. Several suppliers and low income groups suggested using part of EEC to fund social tariffs.

#### 4.8.5 Other policies

Table 4 below lists participants’ suggestions for other possible policy alternatives. An approximate assessment was made of whether proposals would require legislation and the likely expenditure implications. This is intended to provide a guide to the likelihood of implementation (notwithstanding Creedy’s argument that the key criterion should be effectiveness at reducing fuel poverty, Creedy, 1996).

**Table 4: Alternative policy approaches**

Proposal	Legislation Required?	Expenditure implications <sup>1</sup>
1. Support and build supply chains for genuine mass market renewable alternatives, e.g. biomass, ground source heat pumps and micro CHP.	No	Medium
2. Government should put pressure on oil suppliers to provide social tariffs (accounts for 15% of domestic heating).	No	Minimal
3. Extend the gas network, particularly to areas with high levels of fuel poverty.	No	Medium
4. Introduce a Universal Service Obligation within European legislation in recognition that there are some people that the market won't supply.	Yes	Depends how framed
5. Re-nationalise energy industry; failing that re-introduce price controls.	Yes	High
6. Government should tax suppliers and provide community investment and other social programmes with the proceeds.	Yes	Medium
7. Set up system (including accreditation) of social obligation certificates, similar to renewable obligation certificates; suppliers could sell or buy out.	Yes	Medium
8. Health sector could do more to identify social need; Government should provide a lead on this.	No	Low
9. Establish separate fuel poverty target for suppliers and make one body responsible for all aspects, i.e. finding people, maintaining data, delivering energy efficiency.	Yes	Medium
10. Make local authorities responsible for fuel poverty management and set fuel poverty targets on them. Could fund through levy on distribution charge.	Yes	Medium

<sup>1</sup> Low: under £50m, medium: £100-500m, high: over £1bn

There is a considerable amount of research on many of above proposals, which is beyond the scope of this research to summarise. They are listed to give an indication of participants’ thoughts on ‘other’ possible policy alternatives to social tariffs. As with tariff, income and fuel subsidy policies, some are more feasible than others. The key issue for policy makers is ‘which policies (or combination of policies) are most effective at eliminating fuel poverty and making sure fuel is affordable for

all?’ This is the yardstick against which social tariffs should be assessed vis a vis other possible policy alternatives. While this research is intended to provide some guidance, it is beyond its scope to provide a full assessment.

Participants were, however, asked to give their perspectives on how social tariffs could be evaluated and their suggestions for further research. Many couched their responses in terms of comparing social tariffs against other policy options. The next section therefore outlines participants’ views on evaluation.

#### 4.9 Evaluation and further research

Most participants thought it important that the impact of social tariffs was monitored. One participant stated: *“there is no point in doing it if they are not monitored”* (R2). However, participants differed over the extent of monitoring required and whether it should be made compulsory.

Participants generally agreed that information should be collected on scheme design, the number of people benefiting and the extent to which other forms of help (e.g. energy efficiency, benefit entitlement checks) were also given. Suppliers were generally happy to provide this information, providing it was not made a regulatory requirement. Some suppliers wanted more detailed and robust evaluation. One, for example, wanted evaluation to *“identify the best ways of ‘doing’ social tariffs”* (S4), another wanted it to *“identify which initiative helped most”* (S6) and a third thought *“Ofgem should promote best practice and give accreditation to company schemes”* (S5).

Ofgem stated that it had *“no powers to insist on information; we rely on suppliers providing information in a spirit of cooperation, for example the ERA report”*. By contrast most low income and interest groups thought monitoring should be obligatory. One stated: *“Ofgem should work with independent agencies to develop a robust evaluation method which takes into account direct, for example reduced bad debt, and indirect benefits to companies, for example good PR”* (L13). Another considered monitoring important because *“more ‘feel-good’ is claimed than realised in practice”* (L16).

Participants also differed over whether fuel poverty impact should be monitored. Suppliers and Ofgem in particular did not consider it reasonable to assess fuel poverty impact. One stated *“the DTI is currently consulting suppliers on providing fuel poverty information (about social initiatives) – suppliers are not very keen”* (S1). Another stated *“(x company) would not accept the notion of a supplier fuel poverty ‘league table”* (S3). Ofgem and suppliers also considered it unrealistic to assess fuel poverty impact on individual households since this would require collecting information on both household income and property thermal efficiency<sup>30</sup>. However, a number of participants thought it should be possible to make a more global assessment of impact.

Many participants thought it would be useful to compare the relative impact of social tariffs and other policy initiatives towards meeting the Government’s Fuel Poverty

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<sup>30</sup> Even the Government’s main programme for reducing fuel poverty, Warm Front, does not survey the programme’s fuel poverty impact.

Strategy (FPS) targets. Extension of the gas network, renewables, mandatory removal of the ppm surcharge and Charitable Trusts were all mentioned in this context<sup>31</sup>. However, six participants thought that, while the contribution of social tariffs towards the FPS targets should be assessed, they expected tariffs to only make a minor contribution. One commented *“they could make some contribution if properly targeted and managed but energy efficiency and benefit entitlement checks are longer term and more sustainable”* (S7).

When asked for suggestions for future research, many participants repeated themes already identified in their responses to monitoring and evaluation. However, there were some interesting variations. One participant thought that research *“should undermine the Government and Ofgem hidey holes that mean they don't do anything”* (G3). An opponent of social tariffs stated that he *“would favour research that revealed their inadequacy: show them up as a distraction from the real issue”* (L14). Another participant wanted research to *“focus on encouraging innovation, rather than suggest that social tariffs are a solution”* (S2).

When asked whether Britain could learn any lessons from international experience of social tariffs, many participants stated that they would not know. However, twelve participants either referred to examples of social tariffs in other countries or thought it would be useful to further investigate policy overseas. One thought it would be *“useful to know the extent to which help is available through social tariffs and the extent to which it is available through social policy and social security”* (L13).

The EDF participant commented that: *“In France, there is a willingness for EDF and the Government to drive forward social tariffs: represents part of the French 'social model' .... The EDF Chief Executive wanted to develop a similar approach in Britain”*. A Government participant commented that: *“EDF's background of sustained public ownership, where the Government can impose social obligations, has influenced practice in Britain”* (G3). Two other supplier representatives also referred to their investigation of combined social tariff and energy efficiency models in countries where suppliers had a presence, which they hoped to replicate in Britain.

#### **4.10 Impact assessment**

By necessity, the stakeholder interviews focussed on the concept of social tariffs and their implications for policy. To provide some context, the research sought to illustrate the impact of social tariffs on three ‘norm’ households, distinguished by payment method. The norms are intended to illustrate the optimal impact of social tariffs, rather than necessarily the circumstances of households likely to receive them. ‘Real’ households are likely to vary considerably by payment method, consumption level and number of companies they purchase their fuel from.

Three assumptions are made about the ‘norm’ households:

1. They purchase both gas and electricity from the same supplier, i.e. they are dual fuel consumers (for many low income households, this is not likely to be the case)
2. They are ‘medium-use’ consumers of both gas and electricity (many pensioner households, for example, are likely to be ‘low-use’ or even lower).

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<sup>31</sup> See glossary for description of initiatives.

3. They use the same payment method for both fuels (this is often not the case).

The standard tariff rates were those applying in early December 2005 and were obtained from energywatch’s price comparison service using a Bristol postcode. Most suppliers offer more tariffs than those featured, for example some offer ‘no standing charge’ (but with slightly higher unit rates) and/or internet Direct Debit options. The options selected for the analysis were chosen to standardise, as far as possible, similar tariffs across the suppliers. The social tariff rates are based on information provided by suppliers. Table 5 below gives a partial ‘snapshot’ of the situation in early December 2005 and is meant to be illustrative only. The individual rates listed should be treated with caution (see Appendix 1 for more information about the tariffs).

**Table 5: Impact of social tariffs**

Supplier	Tariff	Standard price pa	Social tariff discount pa	New price pa	Size of discount
<b>British Gas</b>	Prepayment meter	£871.04	£60 rebate	£811.04	£60.00
	Standard credit	£840.77		£780.77	£60.00
	Direct Debit	£773.37		£713.37	£60.00
<b>EDF (1)</b>	Prepayment meter	£798.92	Current price freeze worth £40	£758.92	£40.00
	Standard credit	£798.92		£758.92	£40.00
	Direct Debit	£756.92		£716.92	£40.00
<b>EDF (2)</b>			15% discount after Apr 06	£679.08	£79.84
				£679.08	£79.84
				£643.38	£73.54
<b>Npower (1)</b>	Prepayment meter	£861.77	£35 rebate to PSR consumers	£826.77	£35.00
	Standard credit	£816.80		£781.80	£35.00
	Direct Debit	£753.80		£718.80	£35.00
<b>Npower (2)</b>			Transfer to DD, dual fuel internet tariff	£731.74	£130.03
				£731.74	£85.06
				£731.74	£22.06
<b>Powergen (1)</b>	Prepayment meter	£798.61	ACES discount: worth £60	£738.61	£60.00
	Standard credit	£730.94		£670.94	£60.00
	Direct Debit	£676.57		£616.57	£60.00
<b>Powergen (2)</b>			Staywarm fixed price deal	£774.80	£23.81
				£774.80	-£43.86
				£774.80	-£98.23
<b>Scottish Power</b>	Prepayment meter	£748.86	£30 rebate to ppm users on PSR	£718.86	£30.00
	Standard credit	£786.36		£786.36	£0.00
	Direct Debit	£743.97		£743.97	£0.00
<b>SSE</b>	Prepayment meter	£834.07	20% discount	£667.26	£166.81
	Standard credit	£782.41		£625.93	£156.48
	Direct Debit	£740.11		£592.09	£148.02

Table 5 reinforces the price advantage of Direct Debit (DD) and disadvantage of prepayment meter (ppm) tariffs for most companies. It also shows that ppm and Standard Credit (SC) consumers who receive social tariffs based on rebates or price freezes still pay more than consumers of the same company who pay standard Direct Debit (DD) prices (with the exception of Scottish Power’s ppm rebate). This illustrates why some of the organisations interviewed advocated measures to drive down prepayment meter surcharges.

Table 5 also suggests that many social tariff consumers would get a larger discount by switching to another company's standard tariff. This emphasises the benefits of switching company, as stressed by several organisations interviewed (most notably, Ofgem). However, other organisations advocated social tariffs precisely because some consumers, typically those on low incomes, are not inclined to switch: they should therefore at least receive some form of discount from their current company.

Table 5 shows that social tariffs based on a '% discount' tend to be the most generous, when compared with the standard tariffs offered by companies. npower's 'first step' is also very generous for ppm consumers, in part because npower's standard ppm rate is considerably higher than its DD rate. Large discounts do not necessarily lead to beneficiaries receiving the lowest bills when all social tariffs are compared. The Powergen ACES DD rate results in one of the lowest social tariff bills in the market, although the actual discount (£60) is relatively modest.

Table 5 suggests that the Staywarm tariff is not particularly generous – it charges more than Powergen's standard prices. However, Powergen argues that it gives beneficiaries 'peace of mind' in that they know exactly how much they are going to spend and do not have to worry about how much they use (providing their consumption is not considered 'excessive').

#### **4.11 Research findings – conclusion**

The stakeholder interviews found that perspectives on both the current value of social tariffs and their potential future value as a (partial) solution to fuel poverty varied considerably. Most supported the concept of social tariffs; however some regarded the help provided as marginal while others thought it could potentially be quite significant. Many participants thought social tariffs could play a useful complementary role to energy efficiency measures, with some suggesting targeting them on 'hard to treat' properties (where there are few cost effective energy efficiency measures available).

Participants' perspectives on who should receive social tariffs also varied. In general, suppliers, regulatory bodies and Government representatives favoured restrictive eligibility criteria that required a high degree of target efficiency. This parallels the notion in social security policy of a 'zero sum conflict' in which benefits distributed to the 'non-poor' are assumed to decrease the amount available for the 'poor' (Nelson, 2004). The same participants regarded CSR as the main funding route for social tariffs with only a limited amount of cross subsidy permissible. This reflects competition theory that prices reflect costs to ensure markets work effectively (Littlechild, 2000; Helms, 2004). Liberalisation was considered to have delivered considerable value to consumers, with the development of social tariffs demonstrating the market's ability to respond to the needs of low income consumers.

Low income and interest groups tended to advocate generous eligibility criteria, were less concerned about expenditure or cross subsidy and were more concerned to get a better deal (through social tariffs) for low income consumers within the competitive market. This reflected the argument that low income consumers have not benefited from privatisation and liberalisation to the same extent as more affluent consumers

(Klein, 2003; O' Reilly et al, 2005). The Government participants, while highlighting the benefits of liberalisation, acknowledged that certain low income consumers had lost out through failure to switch company. These should therefore get a better deal from their suppliers in the form of social tariffs.

There were sharp contrasts over the extent to which participants considered CSR an adequate basis for providing social tariffs, reflecting the wider debate over the adequacy of CSR for delivering social policy (Capaldi, 2005; Warhurst, 2004; Doane, 2005; Farnsworth, 2004). Regulatory bodies and suppliers supported CSR and considered 'stakeholder pressure' sufficient to ensure their longevity. They reflected Warhurst's argument that modern companies now have to address stakeholders' wider social concerns, as well as shareholders' interests (Warhurst, 2004). Low income and interest groups, by contrast, considered CSR unsustainable and too susceptible to changes in company policy. They echoed Doane's argument that social and environmental issues do not always coincide with the realities of the competitive market and should therefore be addressed through public policy (Doane, 2005).

The perceived weaknesses of CSR led most low income and interest group participants to call for Government intervention to prescribe social tariffs and place them on a firmer footing. However, regulatory bodies and most suppliers were opposed to intervention, arguing this would stifle innovation. Nevertheless, they welcomed other forms of Government and regulatory involvement; for example, the promotion of best practice, support from the DWP in identifying eligible consumers and changes to rules to make it easier for suppliers to set up a supplier-led national social tariff (not all suppliers supported this). Government participants ranged from opposition to intervention to full support, following the outcome of a national pilot.

Participants suggested a wide range of complementary policy solutions to social tariffs, with some proposing these as alternative courses of action. Many participants wanted to see a full evaluation of social tariffs, particularly with respect to how their impact on fuel poverty compared with other policy alternatives. The debate on evaluating social security policy options is very pertinent in this respect. Creedy argued that comparative analysis of social security options should consider their effectiveness at reducing poverty, as well as their costs, while Svalfors argued that the degree of popular support was also an important criterion (Creedy, 1996; Svalfors, 1997). Thus, decisions on whether to means test or apply more universal criteria or whether policy should encourage social tariffs vis a vis other policy options should consider which approaches are most effective at reducing fuel poverty.

A simple 'impact analysis', carried out to provide context to the interview findings, found that many social tariff consumers paid more than consumers of the same company who paid standard Direct Debit prices. It also found that many social tariff consumers could save more money by switching to the standard tariff provided by another company (although, in practice, these consumers tend not to switch). However, with the exception of Scottish Power, there were few competitive offers for ppm consumers. Consumers could make the greatest savings by changing supplier and payment method, i.e. to Direct Debit, although the latter is not an option for many social tariff consumers.

The analysis of stakeholder interviews and the impact assessment suggests that a number of contentious issues require resolution before clear policy options can be developed. The final chapter attempts to provide a possible way forward.

## **5. CONCLUSION AND RECOMMENDATIONS**

This study has shown that the development of social tariffs in Britain has come about through an uneasy mix of policies to liberalise energy markets, eliminate fuel poverty and address the problem of rising fuel prices. The Government, recognising that price rises threaten to seriously undermine progress on its fuel poverty targets, is encouraging fuel suppliers to offer social tariffs to help mitigate their impact on low income households. However, it is reluctant to prescribe social tariffs because this would go against its broader liberalisation agenda to gradually withdraw Government and regulator intervention in energy markets. At the same time, there is a tacit admission that social tariffs represent a response to ‘market failure’: they provide a solution to consumers, predominantly low income, who have not switched supplier or payment method.

The energy market has responded to concerns over rising fuel prices by providing a wide range of social tariffs, each of which has different eligibility criteria, targeting method, size of discount and coverage. Suppliers identify existing consumers who meet their eligibility criteria and either encourage them to take up the tariff (‘opt in’) or proactively transfer them (accompanied by an option to ‘opt out’). There is therefore no such thing as a ‘social tariff market’ in which consumers can shop around to find the most advantageous tariff to meet their needs<sup>32</sup>.

While social tariffs undoubtedly mean beneficiaries are better off, the ‘impact assessment’ found that many still paid more than Direct Debit consumers of the same company. It also found that many would be better off by switching to the standard tariff provided by other companies, although there were few good deals for prepayment meter consumers. This illustrates the limitations of current social tariff products. If social tariffs are meant to protect low income households from the impact of price rises, it seems odd that beneficiaries still pay more than standard Direct Debit consumers. To what extent can a tariff be termed ‘social’ if beneficiaries still pay more than consumers who tend to be more affluent?

This implies that suppliers should make sure that their social tariff rates should be at least equivalent to the lowest standard rate they offer on the open market. The npower ‘first step’ social tariff explicitly follows this principle. However, the ‘% discount’ products offered by SSE and EDF Energy gave rise to lower rates than those available in the open market (at the time of the research) and were therefore the most generous.

The stakeholder interviews found that suppliers generally fund social tariffs through their corporate social responsibility (CSR) budgets. This tends to limit the number of potential beneficiaries and/or the size of the discounts made available. Some participants were concerned that reliance on CSR left social tariffs vulnerable to changes in eligibility criteria, level of discount provided and company priorities on how CSR budgets should be spent. There were also concerns that CSR initiatives tended to make ‘false’ distinctions between ‘deserving’ and ‘undeserving’ poor, with CSR only focusing on the former.

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<sup>32</sup> Powergen’s Staywarm and ACES tariffs are the exceptions to this in that they are open to any consumer that meets the eligibility criteria. Interestingly, Ofgem and energywatch do not consider these products as ‘social tariffs’.

Suppliers and regulatory bodies countered by arguing that stakeholder and competitive pressures were sufficient to sustain social tariffs for the foreseeable future and to ensure wider social policy issues were addressed. The contrasting perspectives parallel the wider debate over the adequacy of CSR for addressing social policy concerns.

‘Targeting’ was a major issue for the suppliers, regulatory bodies and Government representatives interviewed. These groups tended to advocate restrictive eligibility criteria that required a high degree of target efficiency. This presumed that social tariff budgets were limited and small scale, reflecting their reliance on CSR. The low income and interest groups interviewed advocated more generous eligibility criteria and were less concerned about expenditure or cross subsidy. However, they also felt that the more generous and long term social tariffs considered necessary would only come about through Government intervention.

Parallels were drawn with the debate on social security policy, with respect to means-testing, expenditure and clarity over policy objectives. Thus, the relative merits of social tariffs and other policy options should be assessed according to their effectiveness at ensuring everybody can afford to pay for their fuel and the degree of support they have. These criteria are more important than the traditional criteria of efficiency at reaching low income groups without ‘leaking’ resources to more affluent groups (Nelson, 2004).

This requires a full comparative evaluation of social tariffs and alternative or complementary policy options. This might help address the issue of whether the Government should intervene. Such an evaluation would be very timely, given the Energy Review’s acknowledgement that further policy intervention is required, if the Government is to hit its 2010 target for eliminating fuel poverty among vulnerable households (DTI, 2006).

The Government should consider whether there are more effective ways of making sure fuel is affordable, using the results of the evaluation proposed, before it reaches any decision over whether to prescribe social tariffs. Such an evaluation should consider the full range of transfers taking place, including Government and supplier energy efficiency programmes, income policies and infrastructure projects (e.g. gas extension etc), as well as social tariffs. It should also consider the likely degree of popular support for different options, as well as expenditure (Nelson, 2004).

## **Recommendations**

Based on the evidence presented in this report, CSE and NRFC would like to make the following recommendations:

1. Suppliers should seek greater consistency over the existing social tariff products they offer, given that the type of household most adversely affected by price rises is not likely to vary much.
2. Suppliers should reach a common understanding of which consumers should receive social tariffs and should use ‘objective’ criteria to define such households. The Government and regulator should help suppliers reach such an understanding.

3. Suppliers should make sure that the rates they apply to their social tariffs are at least equivalent to the lowest standard tariffs they offer in the open market.
4. The proposal from certain fuel companies to set up a single national social tariff will require Government intervention if the tariff is to be meaningful. This is because such a tariff should offer a price at least equivalent to, or cheaper than, the lowest current price in the open market. It would therefore require a significant degree of cross subsidy and regular review of the rate offered, given the frequent changes to market prices. The 2000 Utility Act requires the Government to ratify programmes that entail significant expenditure.
5. The Government should commission a full comparative evaluation of social tariffs and alternative or complementary policy options before making any decision on whether or not to prescribe a national social tariff. This should examine the effectiveness of social tariffs in terms of their impact on both national fuel poverty levels and on individual households. The latter should examine issues of stigma, perceptions of tariffs and effects on consumption behaviour, as well as impact on households' fuel poverty status.
6. The proposed evaluation may also wish to consider international experience with respect to the design and scope of social tariffs in other countries, the extent of Government intervention required and their relationship to other forms of social policy.
7. The Government should use the proposed evaluation to help inform its Energy Review, with respect to deciding the "further steps ... (required) towards meeting the government's goals for ensuring that every home is adequately and affordably heated" (DTI, 2006, p58).

## APPENDIX 1: DETAILS OF CURRENT SOCIAL TARIFFS

Supplier	Social tariff	Eligible groups	Coverage
British Gas	£30 per fuel (£60 for dual fuel) paid in 2 stages as a credit on bills	All BG consumers on means-tested benefits living in deprived areas, identified by BG through Mosaic profiling. Consumers asked to confirm eligibility	250,000
EDF current	Price freeze: worth, on average, £40 for dual fuel consumer	All people living in fuel poor areas, as identified by EDF through small area fuel poverty model	77,000
EDF future	15% discount		100,000
Npower PSR credit	£25 for electricity and £10 credit for gas (£35 for dual fuel) paid as credit on bills	All people on PSR	20,000?
Npower 'First step'	Transfer to cheapest tariff currently provided by npower (currently dual fuel internet Direct Debit tariff)	People in arrears or 'struggling to pay their bills'	30,000
Powergen ACES	Price freeze: worth, on average, £40, plus cold weather payment, worth £20 (2004/5 value)	Older people signing up to Age Concern Energy Services package	180,000
Powergen Staywarm	Fixed price bill based on size of property and number of residents.	All older people, providing current consumption is below certain level	430,000
Scottish Power	£30 credit paid on bills	All ppm users on PSR	5,000
SSE energycare plus	Up to 20% discount	Severe fuel poor households on benefits	30,000

### National social tariff

In addition to the social tariffs listed above, UKBCSE has put forward a proposal that all the major suppliers should subscribe to a single national social tariff. The researcher was made aware of the proposal by suppliers during the stakeholder interviews, although it does not necessarily reflect the position of individual UKBCSE members. According to one supplier interviewed, the proposal has generated a lot of debate within the energy industry. While it was not possible to obtain a copy of the proposal (due to reasons of commercial sensitivity), the supplier representatives were willing to describe its basic elements. They included:

- a nationally agreed fixed rate offered to certain categories of consumer
- the creation of a ring-fenced fund through a levy on every consumer of around £2pa
- management of the fund by an independent (to suppliers) third party
- distribution of fund proceeds to suppliers according to number of vulnerable customers
- energy efficiency measures to also be provided
- DWP expected to help identify eligible households

The proposal was intended to create a level playing field between suppliers, so that no one company faced additional costs. It was presented as recognising that "fuel poverty is a national issue that all suppliers must address" (quote from supplier representative).

## APPENDIX 2: STAKEHOLDER ORGANISATIONS INTERVIEWED

Constituency	Organisation	Description
Government	Department of trade and industry (DTI)	Lead department for energy policy; jointly responsible with DEFRA for fuel poverty policy
	Department of food and rural affairs (DEFRA)	Lead department for energy efficiency policy
	Politician (Lord Martin O'Neill) <sup>1</sup>	Former chair of Trade and Industry Select Committee (until 2004)
	Fuel Poverty Advisory Group (FPAG)	Non-departmental public body responsible for advising the Government on fuel poverty policy
Regulatory framework	Office of gas and electricity markets (Ofgem)	Responsible for regulation of Britain's gas and electricity industries
	Energywatch	'Watchdog' for gas and electricity consumers in Britain
Fuel supply Companies	British Gas	Part of Centrica; Britain's largest gas and electricity supplier; headquarters based in England
	Powergen	Part of the eon group, whose headquarters are based in Germany
	Npower	Part of the RWE group, whose headquarters are based in Germany
	EDF-Energy	Part of EDF group, whose headquarters are based in France
	Scottish Power	Originally largest supplier in Scotland, now a national company; headquarters based in Scotland
Single/sectoral interest groups <sup>1</sup>	UNISON: energy industry employees	Main trade union in energy industry. Also largest union for public sector employees
	Age Concern England	Provides services to, and advocates on behalf of, older people in England
	National Pensioners Convention (NPC)	Umbrella body for local pensioner groups, representing 1.5m older people
	Single Parent Action Network (SPAN)	Umbrella body for local lone parent groups
	Child Poverty Action Group (CPAG)	Campaigns for the abolition of poverty among children and young people in the UK
Low income groups	National Energy Action (NEA)	Develops and promotes energy efficiency services for low-income households and campaigns for abolition of fuel poverty
	Public Utilities Access Forum (PUAF)	Helps to develop policy on the regulation of the public utilities, with particular focus on low income groups
	National Consumer Council (NCC)	Advocates interests of consumers, particularly those on low incomes, to decision-makers.
	Centre for Utility Consumer Law	Researches the effectiveness of utility regulation in addressing the problems of people on low incomes
	Citizens Advice (CA)	Helps people resolve their legal, money and other problems by providing free information and advice and by influencing policymakers.
	Independent Consultant	Carries out research on consumer issues, with particular focus on low income consumers

**Notes:**

<sup>1</sup> Lord O' Neill was happy to be named as a research participant. However, the research findings do not attribute quotes to him by person.

<sup>2</sup> The organisations interviewed represent three of the four main groups identified as 'vulnerable' within fuel poverty and regulatory policy: older people, lone parents and families with young children. The research would have liked to interview an organisation representing the fourth group – disabled people – but was not able to identify a suitable candidate within the timescale of the research programme.

## APPENDIX 3: INTERVIEW SCHEDULE

### Introduction

- Remind participants about information sent in 'participant information sheet' (PIS)
- Check that they understand the purpose of the interview
- Ask them to complete the participant consent form and return
- Remind participants about the 4 examples of social tariffs given in the PIS and the definition of 'vulnerable' consumers
- Check again that they are happy to go ahead with interview and remind them that they can withdraw at any point; in which case data collected to that point will be deleted.
- Ask participants to make clear whether views expressed are personal or the formal policy position of their organisation.

### General perspective on social tariffs

1. In broad terms, do you support the concept of social tariffs as a method for making fuel bills more affordable for low income consumers?  
*Prompt: why do you say this?*
2. I gave 4 examples of social tariffs. Are there any other examples you can think of?
3. How would you define a 'social tariff'?
4. What lessons do you think Britain can learn from how social tariffs work in other countries?  
*Prompt: give examples*

### Impact of social tariffs on affordability

5. Please give me your perspective on the extent to which you consider social tariffs can help make fuel bills more affordable for beneficiaries.  
*Topics to cover:*
  - The difference between different types of social tariff
  - Short or long term impact
  - Whether they are provided as part of a package of support, e.g. energy efficiency
6. Do you consider social tariffs are more necessary now, given the current context of rising fuel prices?  
*Prompt: distinguish between different types of social tariffs*

### Eligibility criteria

7. Who do you consider should be eligible for social tariffs?  
*Prompt: why do you say this? If necessary give examples:*
  - Fuel poor households
  - People on means-tested benefits/Pension Credit, i.e. same criteria as priority EEC
  - 'Vulnerable' households, e.g. same criteria as Priority Service Registers
  - Other suggestions

8. How do you think take-up of social tariffs can be maximised?  
*Prompt: if necessary give examples:*
- *Front line staff*
  - *General or targeted marketing*
  - *Automatic transfer*
  - *Other ideas?*
9. What do you think are the barriers to take-up, from the perspective of potential beneficiaries?  
*Prompt: if necessary, give examples:*
- *Lack of awareness due to inadequate marketing*
  - *Company procedures*
  - *Reluctance to divulge personal details to energy suppliers*
  - *Literacy issues*
  - *Stigma*

### **Responsibilities**

10. Do you consider the Government or Ofgem should oblige all suppliers to offer a social tariff?  
*Prompt: why do you say this?*  
*Topic to cover: Respective roles of Government and Ofgem*
11. Do you consider the Government or Ofgem should proscribe any aspect of social tariffs?  
*Prompt: why do you say this?*  
*Topics to cover:*
- *Level of support*
  - *Longevity*
  - *Eligibility criteria*
  - *Respective roles of Government and Ofgem*
  - *Extent of supplier discretion*
12. Who do you think should pay the costs of social tariffs?  
*Prompt: why do you say this?*  
*Topics to cover: CSR, cross subsidies, Government funding*

### **Monitoring of impact**

13. Do you consider the impact of social tariffs on beneficiaries should be monitored?  
*Prompt: why do you say this?*  
*Topics to cover:*
- *Who should monitor?*
  - *How should they be monitored?*
  - *The type of information collected*
  - *How information is validated*
14. Do you consider social tariffs can play a role in meeting the Government's Fuel Poverty Strategy targets?

*Topics to cover: importance of contribution, whether contribution should be quantified and incorporated within the Strategy's targets*

### **Sustainability of social tariffs**

15. Do you have any thoughts about how social tariffs might become a mainstream and long term element of suppliers' portfolio of products?

*Topics to cover:*

- *The role of Government, Ofgem, energywatch, Energy Retailers Association (ERA)*
- *Development of good practice*

16. Do you think any safeguards should be put in place for social tariff customers?

*Follow-up for those answering yes, what safeguards?*

### **Alternative approaches**

17. Do you consider there are alternative tariff structures to social tariffs that would help make fuel more affordable for low income consumers?

*Prompt with example of rising block tariffs, if necessary:*

*Topic to cover: balance between targeting and universality*

18. What do you think should be the role of income policies in helping make fuel more affordable for people on low incomes?

*Prompt with examples of higher benefits, pensions, winter fuel payments if necessary*

19. Do you consider there are alternative approaches (to social tariffs) to subsidising fuel? *Prompt with examples of fuel vouchers and direct payments to fuel companies if necessary*

*Topic to cover: balance between targeting and universality*

20. Are there any other alternative policy approaches you consider might make fuel more affordable to low income households?

*Prompt with examples of energy efficiency, renewables, if necessary:*

*Topic to cover: balance between targeting and universality*

21. Do you consider further research on social tariffs would be useful?

*Follow up: If so, what sort of research would you like to see conducted?*

22. Are there any other issues relating to social tariffs not already discussed that you would like to raise?

*Thank participants, remind them to send consent form, inform them of intention to send a copy of research report*

## APPENDIX 4: PARTICIPANT INFORMATION SHEET

### **Social tariffs: a solution to fuel poverty?**

#### **Participant information sheet**

I am writing to invite you to take part in a research project on the subject of fuel company social tariffs. Before you decide, it is important that you understand why I am conducting the research and what it will involve. Please take time to read the following information carefully. Ask me if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part.

#### **Why am I conducting the research?**

I am conducting this research for 2 reasons:

1. The Centre for Sustainable Energy (see [www.cse.org.uk](http://www.cse.org.uk) for more information about the Centre) has received funding from Unison to carry out a scoping study on this topic. The study aims to provide a preliminary review of the appropriateness of social tariffs for providing a long term solution to the issues of fuel affordability and fuel poverty. The study may suggest themes for further 'in-depth research'. I have included a separate sheet that outlines the research objectives for your information.
2. I am also carrying out the research for a dissertation which forms part of my studies for a Masters degree in Policy Research at the School for Policy Studies, University of Bristol (see [www.bristol.ac.uk/sps](http://www.bristol.ac.uk/sps) for more information about the School).

#### **Why were you chosen?**

The research aims to gather the perspectives of key stakeholders on this subject to help inform the review. You were selected as a representative of your organisation with knowledge of the subject and a possible viewpoint on the long term policy implications. The questions are generally open-ended and are intended to allow you to give as full an answer as you feel appropriate. You are welcome to contribute both a personal perspective and/or the 'formal' perspective of your organisation. If such a situation arises, I would be grateful if you clarify which this is. It is possible that your organisation may not have arrived at a formal policy position on some of the issues raised by questions. In these situations, I would be very grateful if you could give a personal perspective.

#### **What will happen if you take part?**

If, having read this information sheet, you are willing to take part in the project I will arrange a convenient time to interview you over the telephone. Before the interview takes place, please feel free to contact me to ask any questions you may have about the project. I will also ask you to sign a form to say that you understand what the study is about and that you have voluntarily agreed to take part. After you have given your consent, I will interview you for no more than 45 minutes. If you agree, I will type your response straight into an electronic schedule.

#### **Do you have to take part?**

It is up to you to decide whether or not to take part in the project. If you do decide to take part, you are still free to stop at any time. If you want to stop you do not have to give any reason. In such situations, I will delete the information I have already recorded from my files.

#### **What will happen to the information you provide?**

All information collected during the project will be kept strictly confidential. The report of the research will only identify you by your organisation, rather than by name. However, I recognise that in some cases readers of the report of the research may be able to deduce who you are, given that this is a fairly specialised subject area. Please let me know if you think this may cause problems.

The information you supply will be stored on CSE's own server. CSE has a rigorous security system that only allows CSE staff access to information on the server. CSE hopes to publish

the research findings and make the research report available on its website. I will also present the findings as part of my dissertation.

**Contacts for further information**

If you want any further information about CSE's interest in the project, please contact CSE's chief executive, Simon Roberts at CSE, Create Centre, Smeaton Road, Bristol, BS1 6XN; tel: 0117 9340 913. If you want any further information about the academic element of the project, please contact my dissertation supervisor, Ailsa Cameron at the School for Policy Studies, University of Bristol, 8 Priory Road, Bristol BS8 1TZ; tel: 0117 954 6707.

## Social tariffs: a solution to fuel poverty?

### Participant consent form

Please tick box

Have you read the information sheet?

Have you had an opportunity to ask questions about the project?

Have you received enough information about the project?

Do you understand that you are free to withdraw from the project at any time, without giving reason?

Do you agree to participate in the project?

\_\_\_\_\_  
Name of participant, date signature  
(an electronic signature will suffice)

\_\_\_\_\_  
Name of person taking consent date signature

#### Contacts for further information:

If you want any further information about CSE's interest in the project, please contact CSE's chief executive, Simon Roberts at CSE, Create Centre, Smeaton Road, Bristol, BS1 6XN; tel: 0117 9340 913.

If you want any further information about the academic element of the project, please contact my dissertation supervisor, Ailsa Cameron at the School for Policy Studies, University of Bristol, 8 Priory Road, Bristol BS8 1TZ; tel: 0117 954 6707.

## **Social tariff research aims and objectives**

This research aims to review the appropriateness of fuel company ‘social tariffs’ in providing a long term solution to the issues of fuel affordability and fuel poverty and to suggest possible options for further research on this topic. Specific objectives include:

- to review the existing literature on social tariffs;
- to review concepts of universal or means-tested provision and State or market provision to help assess the appropriateness of social tariffs;
- to carry out a survey of ‘stakeholders’ to gauge their perspectives on social tariffs, possible improvements to social tariffs and possible policy alternatives;
- to investigate whether further research is needed and if so, what the priorities for research should be; and
- to make initial recommendations for Government and regulatory policy towards low income consumers with respect to social tariffs or to suggest alternative approaches.

For the purposes of this study, I will use the term ‘social tariff’ to describe four particular types of initiatives. They are based on existing company products, although they are not intended to reflect specific products exactly. My examples of social tariffs include:

- A fixed price tariff for certain categories of ‘vulnerable’ consumer, regardless of how much they use.
- A fixed term price freeze for certain categories of ‘vulnerable’ consumer
- A fixed term price cap for certain categories of ‘vulnerable’ consumer
- A discount price tariff for certain categories of ‘vulnerable’ consumer with no immediate term specified

I have not including prepayment meter (ppm) tariff re-alignment, i.e. where companies have removed the ppm surcharge between ppm and standard credit tariffs, although some commentators also regard these as ‘social tariffs’. It is possible that interviewees might have other examples of social tariffs – they will be invited to describe these during the interview.

I have used the term ‘vulnerable’ because this is a standard term used by the Government, Ofgem and fuel companies to describe low income consumers or consumers with specific needs, for example older households, households with young children or households containing disabled members. It is important to appreciate that precise definitions of ‘vulnerable’ vary between the different agencies.

## APPENDIX 5: THE 'FRAMEWORK' ANALYTICAL APPROACH

Analytical hierarchy	Framework	Description
Raw data	Identify recurring themes	Familiarisation with data Relate back to research objectives
	Construct index	Provides initial conceptual framework Group themes into broader 'main themes' or categories
	Label data	Apply index to raw data
Data Management	Sort data	Bring data with similar content together and sort by theme Can assign same data to several categories
	Construct thematic chart	Columns represent index, plus final comments column Row allocated to each respondent
	Summarise or synthesise data	Use respondents' own language Keep interpretation to minimum Do not dismiss material as irrelevant
	Descriptive Accounts	Identify dimensions Refine categories Classify data
Establish typologies		Need to be discrete and independent Dimensions that discriminate Investigate 'fit' to categories
Detect patterns		'Associative analysis' Identify clusters & connections, e.g. by sub-group Verify associations
Explanatory Accounts	Develop explanations	Explicit – offered by participants Implicit – inferred by analyst, e.g. search for underlying logic or relationship to broader theory
	Seek applications to theory/policy	Framework allows a clear and verifiable explanation of how the explanatory arguments were developed

adapted from Ritchie et al, 2003

## **APPENDIX 6: THE 'FRAMEWORK' INDEX**

- 1 Organisational details**
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## APPENDIX 7: EXTRACT FROM FRAMEWORK CHART

	2 Broad perspectives						
	2.1	2.2	2.3	2.4	2.5	2.6	2.7
Code	Attitudes to competition/ market provision	Attitudes to current offers	Differences between offers	Integration with other measures	Definition of social tariffs	Other examples	Costs
G1	Competitive market means companies come up with different approaches. Very costly to set up competitive market; having done this, companies should decide STs for themselves.	Run counter to competition - tie customers to company. <b>"Always going to be a bedrock of people who've not switched - particularly suitable for STs"</b> Switching may be best solution; however if they are not going to switch at least get best deal from existing supplier.	Predictability of Staywarm - people feel comfortable in using what is required; also a weakness - price hikes	Makes sense on own, even in isolation of other measures.	Tariff designed to mitigate the impacts of a socio-economic condition or temporary change in conditions.	Winter rebates across 2 winters for 250,000 customers - based on average increase in price	Doesn't cost suppliers anything - CSR costs can always be recovered from customer base. <b>"In reality, (STs) do represent a tax through the back door"</b>
G2		Provide solution for those who struggle with bills generally. Can help people plan & budget, manage overall bills, not just fuel.		Important to make aware of other measures: EE, payment method.	Provides support and assistance to a particular group, responds to their particular needs.		Through CSR and business planning.
G3		Support but not a panacea. Helps deal with problem of low income and the need to keep warm. Could be a useful s/t measure for HTT, off-gas.	Dubious about rebates - confusing. Don't like those that rely on excessive means-testing. Discount sounds most attractive.	Useful to link STs with BECs. Need comprehensive approach on ground. Should advise on energy use.	Pricing structure which encourages people to consumer energy up to a level which enables them to keep their homes warm but at the same time not excessively expensive, i.e. expend <10%.		CSR budget to start with, Govt tax credit in longer term.
G4	Allocating costs to different groups is an art not a science; should err towards generous for vulnerable consumers.	Anything to reduce prices is helpful but needs to be part of range of measures. How sustainable?; will suppliers want to continue doing this? Can only help at edges, can't reduce prices that much.	Surcharge removal: big drop in bills.	Helpful if provided as part of package whether from suppliers or others.	<b>"A tariff where vulnerable customers pay less, relative to other customers, than their relative costs of supply or towards the lower end of the range of their relative costs of supply."</b>	ppm surcharge removal.	Part from CSR, part from other consumers. Whether cross subsidy or not is a grey area - costs can't be identified that easily. Govt subsidy should only be last resort - best going into measures for houses.
R1	Market works for the majority of consumers. Market has delivered huge value to consumers over years	Represent significant shift of resources to client groups. Helps address market failures			<b>"Represent a solution for those whom the market system fails"</b> Form of transfer to consumers alongside EE, financial inclusion, PSR, charitable trust initiatives	ppm tariff re-alignment	Split between taxpayers and consumers Certain amount of cross subsidy is OK; however if get it wrong, could lead to transfers away from poorer consumers
R2	Market will deliver options for saving £ on fuel bills without the need for intervention.	Not really social tariffs, more s/t offers of help. <b>"Mostly just band-aid initiatives"</b> Theory of CSR is that STs help improve corporate image.	Staywarm not social tariff - cost reflective (operating costs lower: no meter reads)	Important that holistic approach taken: also provide BECs, EE	Mandated lower price tariff for certain categories of consumer, as exists in France	Winter rebates	Cross subsidies distort market. Competition Act limits extent to which companies can cross-subsidise. Not in their commercial interest to cross-subsidise.

## APPENDIX 8: EXAMPLE OF FRAMEWORK ANALYSIS

Extracts from source chart					Analysis of perspectives on prescription and Government and supplier responsibilities			
	4.2	4.3	4.4	4.6				
Cod e	'Mains-treaming'	Extent of prescription	Government responsibility	Suppliers responsibility	Govt & supplier responsibilities	Elements identified	Categories - Govt	Categories - suppliers
G1	Depends on: price environment, external pressure on suppliers (Govt, Ofgem, consumer ...	"Departmental position is that each company should have something of this kind (ST), albeit for companies to decide shape ...	"Long history of Govt using the domestic energy market for social and environmental purposes and the market ...	"Supplier chief executives like to demonstrate to Ministers that they are doing things" Readiness by suppliers to ...	Govt uses mkt to meet social & env objectives. Suppliers willing to have social role - useful for Govt. Close relationship between Govt and suppliers. Suppliers allowed to develop products without intervention.	Govt & supplier relationship Govt's role Extent of supplier discretion	Exhort suppliers to offer STs Evaluate contribution towards FPS	Willingly carry out social policy Develop supplier-controlled STs in response to exhortation
G2	May need to waive 28 day rule, otherwise bureaucratic nightmare. Should get volunteer utilities...	Get willing volunteers first to establish working model, get DTI, Ofgem, ERA to accept this as agreed approach. ....	Make sure DP doesn't prevent coordination on ground. More proactive than just exhortation. ....	Should direct STs towards those who can't be helped by other means (EE, BECs), i.e. hard to treat...	Suppliers work with Govt & Ofgem to establish working model, then Govt proscribes. ERA develop 'modus operandi' for engagement. DWP should help suppliers identify VGs.	Govt & supplier relationship Govt's role Extent of supplier discretion Suppliers develop common approach	Pilot working model, then proscribe DWP help identify vulnerable	Current: work with Govt to develop national ST Future: deliver Govt prescribed national ST
R1	CSR still has 3-5 years left; requires engagement with .....	"If Govt were to be more prescriptive, likely to get it wrong". .....	Exhortation, contribution, support. Govt would love to see ...	Don't want to see suppliers enter market who are only interested in ...	Govt, Ofgem, eW role is to exhort suppliers to provide STs. Suppliers work with stakeholders to dvlp STs	Govt & supplier relationship Govt's role Stakeholder input	Exhort suppliers to offer STs Evaluate contribution towards FPS	Develop supplier-controlled STs in response to exhortation
R2	Only if Govt insists on them: are STs the best way to achieve policy goals? ...	Ofgem would steer away from prescription. Role is to sketch out components of good package..		Companies are working together to consider best practice - putting their ...	Suppliers work together to establish BP. Suppliers allowed to develop products without intervention. Govt should provide fuel vouchers, not prescribe STs.	Govt & supplier relationship Extent of supplier discretion Govt's role	Exhort suppliers to offer 'quasi STs' 'True' STs: not a soln Evaluate contribution towards FPS	Develop supplier-controlled 'quasi STs' in response to exhortation Work together to establish BP
I1	Govt should require all suppliers to offer.	"Govt should take a lead - oblige all suppliers to offer them – this ....	Pass legislation, whatever needs to be ..	How much responsibility should be given to profit .	Govt should legislate all aspects. Govt should not expect commercial companies to take responsibility.	Govt's role Extent of supplier discretion	Legislate on all aspects of STs Evaluate contribution towards FPS	Deliver Govt prescribed national ST
I2	Campaign in Scotland to promote STs: .	Not sure whether to call on Govt to prescribe - very ..		Want more suppliers to offer STs.	Govt not likely to intervene. All suppliers should offer STs.	Govt's role Extent of supplier discretion	Govt won't intervene Evaluate contribution towards FPS	Develop supplier-controlled STs in response to exhortation
I3	Might be case for some initial monitoring of existing STs to assess effectiveness, .	1 fixed national ST would have to be significantly cheaper than all standard offers and is only likely..	STs and WFP have to be understood together: WFP represents indirect Govt ..	Suppliers should reward loyalty - give customers who haven't switched ...	Govt should cap price rises for VGs. Govt should oblige suppliers to offer basic level but suppliers have discretion to offer more. Suppliers should reward loyalty of consumers who haven't switched.	Govt's role Extent of supplier discretion	Legislate to offer national ST or cap prices Evaluate contribution towards FPS	Deliver Govt proscribed ST or price caps Compete to improve above Govt imposed minimum
L11	Don't expect them to be sustainable over long term, unless closed in terms of ....	Prescription of STs not appropriate at moment. Might be necessary in future if prices ...	Govt could mandate through Utilities Act reserve power; otherwise ...	Govt could flag up it is considering leg but in meantime reach .....	Govt should mandate through either reserve power or new legislation in future. Suppliers encouraged to develop vol scheme first.	Govt's role Extent of supplier discretion Suppliers develop common approach	Future: legislate or use reserve power to offer national ST	Current: deliver supplier-controlled STs in response to exhortation. Future: deliver Govt prescribed national ST

Social tariffs – a solution to fuel poverty?

LI2	Social goods policy has to come from Govt.	Govt direction required for RBTs. Ofgem would require suppliers to set up RBT system ...	Govt should promote RBTs: joins up sustainability with fuel poverty policy.	Discretion over details. Shouldn't be able to decide who are the deserving ....	Govt should proscribe RBTs & eligibility. Suppliers have discretion over scheme details	Govt's role Extent of supplier discretion	Legislate to prescribe RBTs & reform benefit system to compensate high users Evaluate contribution towards FPS	Deliver Govt prescribed RBT Compete to improve offers above Govt imposed minimum
LI3	"Rather than make schemes not going anywhere ...	Shouldn't be prescribed: social & env. issues need more ...	Vital nature of energy consumption should be ...		Govt should carry out more fundamental reform.	Govt's role	Legislate to carry out more fundamental reform	Provide energy services according to social justice principles
LI4	Govt should require all suppliers to provide. Ofgem should provide ....	Nub of debate - what is the role of the State? Govt should proscribe, including ....	Should use reserve power to oblige suppliers to provide STs.		Govt should mandate STs through reserve power.	Govt's role Extent of supplier discretion	Legislate or use reserve power to offer national ST Don't evaluate contribution to FPS	Deliver Govt prescribed ST
LI5	Suppliers should know where they are going with strategies, what type of...	Suppliers should have discretion; otherwise welfare state, in which case Govt should meet need....	Should provide guidance on longevity and eligibility.		Govt should provide guidance on longevity & eligibility but not proscribe. Govt should tax companies to fund wider social programmes.	Govt's role Extent of supplier discretion	Provide guidance Tax companies to fund wider social programmes Evaluate contribution towards FPS	Provide supplier-controlled STs but only a 'fudge'
S1	UKBSCE WP: national social tariff offered by all companies - might work if well targeted and linked to EE measures. Will only work if Govt takes lead .....	Suppliers consider they are already doing a lot. Sensible to have tariff for most vulnerable - Govt should lead this, inc identification of those eligible.	Provide information on those eligible for tariff.	"Big debate within industry about extent to which they are expected to play a role - helpline was widely seen as suppliers moving into Govt territory" .	Industry debate over all suppliers adopting national ST. Supports but will only happen if Govt takes lead (personal view). Govt is expecting too much of suppliers, e.g. helpline, BECs more Govt responsibility. Suppliers are working together to solve problems. DWP should help suppliers identify VGs	Govt & supplier relationship Govt's role Extent of supplier discretion Suppliers develop common approach	Lead development of national ST Take responsibility for BECs & helpline Improve housing Evaluate contribution towards FPS	Deliver Govt-led national ST
S2	"Govt should not try to ram it (social tariffs) down suppliers' throats - should let market work" ..	No prescription, otherwise would restrict choice and stop innovation. Useful for suppliers to adopt common ....	Problem of FP is mainly poverty and poor housing. Fuel price is a distant third.	Suppliers shouldn't have to decide cross - subsidies: Govt matter.	Govt should improve housing, raise incomes, modernise FD. Should not proscribe STs. Suppliers should adopt common definition of vulnerable. Suppliers allowed to develop products without intervention.	Govt's role Extent of supplier discretion Suppliers develop common approach	No role on STs. Improve housing, raise incomes, modernise FD. Evaluate contribution towards FPS.	Provide supplier-controlled STs
S3	X company probably wouldn't set up (name of ST) if staring afresh: insufficient l/t planning. Further ST products will depend on .....	Govt should provide a framework for STs; make it a regulatory obligation for companies to offer, but shouldn't set the rules.....	Govt should set framework: bedrock of company provision against which suppliers have discretion to design own products.	National ST doesn't fit X company's strategy over the next few years; doesn't like idea of collectively giving a group of customers...	National ST doesn't fit X company's strategy. Govt should set framework, would make it easier for (stakeholder) to promote social products within company. Design of products left to company discretion. X company happy to accept its social role.	Govt & supplier relationship Govt's role Extent of supplier discretion	Set framework for STs	Provide supplier-controlled STs within prescribed framework

## GLOSSARY

### **Affordable Warmth**

The provision of warm living conditions and other energy services for people on low incomes by ensuring their properties are well insulated, their heating systems are efficient and economical to run and their incomes are maximised, for example through welfare rights advice. The converse of fuel poverty.

### **Benefit entitlement checks**

These are now offered by Warm Front and some energy suppliers. The telephone-based service seeks to establish whether households may be entitled to means tested benefits, Pension Credit or tax credits due to low income and/or other household characteristics, e.g. household includes a disabled or older person. If eligibility is considered likely, the service will send the appropriate forms to clients. Benefits or welfare rights advice, such as that offered by a Citizens Advice Bureau, will generally carry out a full investigation of client circumstances and provide support throughout the claims process, e.g. help with filling in forms, representation at tribunals.

### **Charitable trusts**

In the context of energy, charitable trusts are an initiative that started in the water industry and later spread to the energy industry. The trusts are set up on a semi-independent basis to the sponsoring fuel company and provide financial assistance to consumers of that company in arrears. Such consumers are generally referred through an advice agency and are expected to provide evidence of 'ability' to manage their personal finances in the future. Help can include debt write-off.

### **Corporate Social Responsibility (CSR)**

The Government defines CSR as: "how business takes account of its economic, social and environmental impacts in the way it operates – maximising the benefits and minimising the downsides. Specifically, we see CSR as the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society" (extract from CSR.gov.uk website).

Evidence of the significance placed on CSR by public policy includes the OECD guidelines on CSR for multinationals; the EU CSR Green Paper and the UK appointment of a Government Minister for CSR in 2000 (OECD, 2000; EC, 2001; DTI, 2001). The DTI has set

up a website dedicated to CSR and supports or encourages many initiatives that promote its adoption by the business community, e.g. the CSR academy, 'Business in the Community' and the 'corporate responsibility index' (see CSR.gov.uk website).

### **Decent homes**

All social housing in England is expected to meet the 'Decent Homes Standard' (DHS) by 2010. The standard includes a thermal efficiency criterion, which covers insulation and heating systems. Achievement of the DHS is meant to ensure that tenants will not live in fuel poverty, providing that they claim their full entitlement to benefits and that the size of their property is suitable for their needs (see definition of 'under-occupation'). The Government admits that achievement of the DHS does not guarantee the property is 'fuel poverty proofed'. However, it argues that the DHS is meant to represent a minimum standard for triggering action; most social housing will be brought up to a standard considerably in excess of the DHS.

### **Direct Debit**

Term used in energy to describe a payment method in which the monthly cost of consumers' annual fuel bills are automatically deducted from consumers' bank accounts. Currently the cheapest method of paying for gas and electricity, with even larger discounts available for those buying gas and electricity from the same supplier (dual fuel) and those using internet-based accounts.

### **Dual fuel**

Term used to describe consumers who buy both gas and electricity from the same supplier.

### **Energy Efficiency**

Making the best or most efficient use of energy in order to achieve a given output of goods or services. This does not necessarily mean the use of less energy, in which respect it differs from the concept of 'energy conservation'.

### **Energy Efficiency Commitment (EEC)**

Energy suppliers with 15,000 or more domestic customers are obliged to meet defined energy savings targets by encouraging and assisting customers to take up energy efficiency measures in their homes. At least 50% of the energy savings must come from customers receiving certain benefits or tax credits (sometimes referred to as the 'priority group' element). These customers normally receive 100% grant aid under the EEC.

### **Energy Retail Association (ERA)**

The trade association for the main domestic energy supply companies in Britain: British Gas, EDF Energy, npower, Powergen, Scottish Power and Scottish and Southern Energy.

### **energywatch**

Energywatch was established under the 2000 Utility Act as the independent watchdog for gas and electricity consumers. Energywatch takes up complaints on behalf of consumers who are experiencing difficulty in resolving problems directly with their energy suppliers, as well as advocate the interests of consumers within the regulatory system. It also provides price comparison factsheets that compare energy supplier tariffs which are updated monthly.

### **Fuel Direct**

A fuel payment method in which the DWP pays fuel bills direct to the fuel company on behalf of Income Support recipients in debt. DWP currently regards it as a payment method 'of last resort' and is reluctant to authorise it due to its reliance on cumbersome and manual procedures.

### **Fuel poverty**

The UK Fuel Poverty Strategy defines a fuel poor household as one that needs to spend more than 10% of its income on all fuel use and to heat its home to an adequate standard of warmth (defined as 21°C in the living room and 18°C in other occupied rooms, as recommended by the World Health Organisation) and meet its other energy needs (DTI & DEFRA, 2001). The definition is therefore based on 'required fuel expenditure', rather than 'actual fuel expenditure'. Required fuel expenditure is calculated through a technical evaluation of a property's thermal efficiency and heating system. The three principle causes of fuel poverty are low income, poor energy efficiency standards and high fuel prices.

The Government defines fuel poor households that include older people, young children or disabled people as the 'vulnerable fuel poor' (DTI & DEFRA, 2001). It defines fuel poor households that do not include members in these circumstances as the 'healthy adult fuel poor'

### **Fuel Poverty Strategy**

The UK Fuel Poverty Strategy was published by the Department of Trade and Industry (DTI) and Department of Environment, Food and Rural Affairs (DEFRA) in 2001. The Strategy

came about as a result of the Warm Homes and Conservation Act 2000 which required the Secretary of State for England and the National Assembly for Wales to publish and implement a strategy for reducing fuel poverty and set targets for its implementation. The Act requires the Government to eliminate fuel poverty among 'vulnerable households' and all social housing tenants in England by 2010 and among all remaining households in the private sector by 2016.

### **Gas network extension**

This refers to the extension of the gas network to areas currently without supply where it is economical to do so. The provision of a gas supply to low income households currently without gas would make a significant contribution towards reducing fuel poverty because gas is currently the cheapest mainstream fuel source.

### **'Hard to treat' properties**

Term used to describe properties where it is difficult to install cost effective energy efficiency measures and heating systems, i.e. loft insulation, cavity wall insulation and gas central heating. This includes properties built with solid walls and/or with non traditional building construction or are not connected to the gas network.

### **Ofgem**

The Office of Gas and Electricity Markets (Ofgem) was established under the Utilities Act 2000 to regulate the gas and electricity supply industries. It combines the regulatory functions previously carried out separately by OFGAS and OFFER.

### **Passport benefits**

Term used to describe those benefits and tax credits that households must receive before they can be referred for help under Warm Front or 'priority EEC'. In the case of Warm Front, households must also include either a child under 16, a person over 60 or a disabled person and live in the private sector (private rented or owner occupied).

### **Prepayment meter (ppm)**

A 'pay as you go' method for paying fuel bills. Prepayment meter users 'charge up' cards by paying cash for a certain amount of credit at prepayment meter outlets, e.g. local shop or 'hole in the wall' machines. They then discharge their cards in the prepayment meter at home to access their gas or electricity. Prepayment meter tariffs are generally higher than standard credit tariffs and always higher

than Direct Debit tariffs. Suppliers justify this on the grounds that it costs more to maintain the prepayment meter infrastructure.

NEA research found that 58% of gas ppm and 47% of electricity ppm users had household incomes below £12,500 (year not specified), compared to 38% of all households (NEA, 2005). A substantial number of ppm users are paying off arrears through their meters (23% in the case of gas and 14% for electricity) (Ofgem, 2005c). This is because suppliers are obliged by licence to install ppms as an alternative to disconnection wherever feasible. If a ppm consumer fails to keep their meter in credit, they will no longer receive a supply ('self-disconnection').

Older people tend not to use ppms; hence it is often argued that many of the fuel poor do not use ppms. Moves to reduce the ppm surcharge are often resisted on the grounds that this cost will be recovered from low income non-ppm users.

#### **Priority Service Register (PSR)**

All suppliers are obliged to operate a PSR, which all older and disabled people living on their own are entitled to join (but only about 25% do). People on the register are entitled to such services as a free annual gas safety check, re-positioning of their meter, access to a password scheme for fuel company representatives and adaptations to gas and electricity equipment.

#### **Referral schemes**

In the context of energy, this describes partnership arrangements between fuel companies and local and community organisations in which front-line workers refer people to fuel companies' energy efficiency schemes.

#### **'Renewables'**

Term used to describe small scale domestic renewable energy, e.g. ground source heat pumps, solar thermal, biomass boilers. Community schemes may involve a central biomass Combined Heat and Power plant coupled with a local district heating scheme.

#### **Smart meters**

More sophisticated meters than those commonly in use in Britain. They typically provide consumers with feedback on consumption and allow readings to be taken remotely, eliminating manual meter reads and the problem of estimated bills. They can also allow suppliers to provide variable daily tariff

rates, to facilitate demand management. They can be used in conjunction with all payment methods, thus reducing the economic rationale for levying higher charges on ppm users.

#### **Standard Credit**

Term used to describe the provision of gas and electricity through a credit arrangement in which the consumer typically pays on a quarterly cycle.

#### **Suppliers**

Short hand term used to describe fuel companies that supply the domestic gas and electricity market. The British market is dominated by 6 major companies, all of which supply gas and electricity (and sometimes other services, utility and non-utility). British Gas is the biggest supplier in Britain. Three companies have European parents: npower (RWE, a German company), Powergen (E.ON, a German company) and EDF (Electricite de France). The 3 companies dominate the European market and are much larger than British Gas.

The British energy supply market is considered one of the most liberalised energy markets in the world. However, parts of the industry are still operated by monopolies, e.g. electricity distribution and the gas pipe network. These do not have a direct billing relationship with domestic consumers.

#### **Sustainable Energy**

Energy that meets current needs without depleting the resources available to future generations. The term also encompasses the notion of equity between different consumer groups, such that all have 'fair' access to the energy services they need. Sometimes mistakenly used instead of the term 'renewable energy' (energy from wind, wave, geothermal, solar etc).

#### **Tariff**

A scale of charges for the supply of heat, gas or electricity (or any other service or commodity). It may include a fixed charge for the provision of the supply and a variable charge depending on the amount of energy supplied. 'Tariff customers' refer to smaller gas and electricity consumers who pay for their fuel according to a scale of charges rather than under a contract.

#### **UK Business Council for Sustainable Energy**

The UKBCSE brings together the Chief Executives of Centrica, EDF Energy, National

Grid Transco, Powergen, npower, Scottish and Southern Energy, Scottish Power and United Utilities, as well as senior executives from Shell and BP – see [www.bcse.org.uk](http://www.bcse.org.uk) for more information about the forum.

### **Under-occupation**

Under-occupancy is defined in terms of the 1968 Parker Morris standard which set building regulations on the minimum floor area for a home depending on the number of occupants. A simpler definition, which is sometimes used for 'stock management' purposes, is based on the number of occupants (differentiated according to number of children and adults) relative to bedrooms.

### **Vertically integrated companies**

Companies that both generate and supply electricity. The supply side of companies are effectively protected from rises in wholesale prices because the generating arm of the same company sells to the wholesale market.

### **Warm Front**

Warm Front grants are available for people who own or privately rent their home and are on certain benefits or tax credits. They are available to people over 60, have children under 16, are pregnant, are disabled or have a long-term illness. Grants provide energy efficiency advice, 2 energy-efficiency light bulbs and a package of insulation and heating measures, including central heating, up to a value of £2,700. Oil central heating can also be offered, where lower carbon alternatives are not available, and until recently was regarded as a relatively economical alternative for households without access to gas. In such cases, the grant maximum is raised to £4,000.

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