Social tariffs: a solution to fuel poverty?

Summary for policy makers

The report **Social Tariffs - a Solution to Fuel Poverty?** was prepared for Unison by the Centre for Sustainable Energy in April 2006. It was written by William Baker. Full copies of the report can be downloaded at **www.cse.org.uk/pdf/pub1059.pdf**

Key conclusions

- Social tariffs - in which energy suppliers offer discounts on their energy bills to some of their more vulnerable customers - are ad hoc, inconsistent and poorly focused on fuel poverty.
- In many cases, suppliers' social tariffs are more expensive than their own direct debit tariffs. Many social tariff consumers would be better off if they moved to other companies' standard tariffs. However, these consumers tend not to switch supplier.
- The Government, regulator and energy suppliers should carry out a full evaluation of social tariffs and possible alternative policy options before taking any decision to further develop them as a tool for helping tackle fuel poverty.

CENTRE FOR SUSTAINABLE ENERGY
CREATE Centre,
Smeaton Road, Bristol BS1 6XN
0117 929 9950
www.cse.org.uk

National Right to Fuel Campaign
PO Box 42872
London N19 4XU
07963 790 996
www.righttofuel.org.uk

Social tariffs: a solution to fuel poverty

Summary for policy makers

New research from the Centre for Sustainable Energy (CSE) and National Right to Fuel Campaign (NRFC) shows 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 fuel price rises threaten to seriously undermine progress on its fuel poverty targets, is encouraging fuel suppliers to offer social tariffs to help mitigate the impact of the increased cost of fuel 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. Powergen's Staywarm and ACES tariffs are the exceptions to this in that they are open to all consumers who meet the eligibility criteria. Interestingly, Ofgem and energywatch do not consider these products as 'social tariffs'.

While social tariffs undoubtedly mean beneficiaries are better off, an 'impact assessment' of current social tariffs 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 are 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.

Interviews with stakeholders who work in the energy and fuel poverty fields 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 an unfortunate distinction between 'deserving' and 'undeserving' poor, with CSR only focusing on the former.

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.

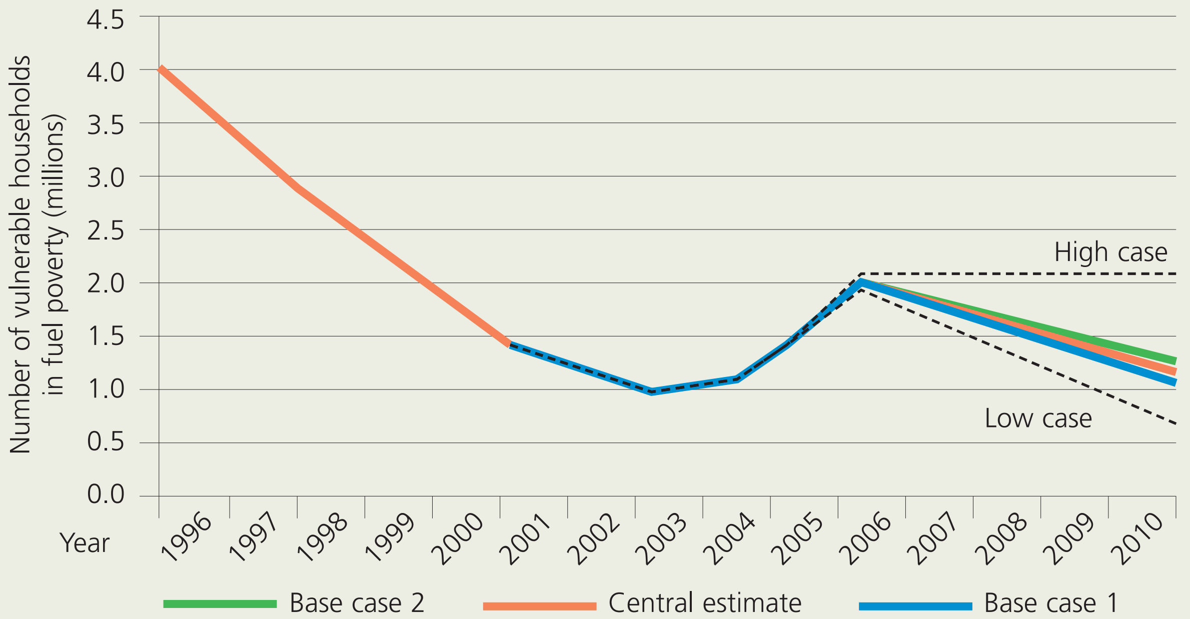
This requires a full comparative evaluation of social tariffs and alternative or complementary policy options, which would help address the issue of whether the Government should intervene. Such an evaluation would be very timely, given the Energy Review's acknowledgement that further policy intervention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

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), as well as social tariffs. It should also consider the likely degree of popular support for different options, as well as expenditure.

See over for recommendations.

Projected number of vulnerable households in fuel poverty

Source: DTI 2005



Recommendations

Based on the evidence presented in the 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 prices 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 could also 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)

Background to the research

The research upon which the report is based consisted of a literature review, qualitative semi-structured interviews with 'stakeholders' who work in the energy and fuel poverty fields 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. The principle researcher and author was William Baker, CSE's Senior Researcher. CSE and NRFC would like to thank UNISON, the principle research funders. UNISON is a trade union that represents large numbers of energy industry and public sector employees.

CENTRE FOR SUSTAINABLE ENERGY
CREATE Centre,
Smeaton Road, Bristol BS1 6XN
0117 929 9950
www.cse.org.uk

National Right to Fuel Campaign
PO Box 42872
London N19 4XU
07963 790 996
www.righttofuel.org.uk