ENERGISING FUEL DIRECT

Campaigning for Warm Homes

ENERGY ACTION SCOTLAND

ScottishPower gas and electricity

Energising Fuel Direct

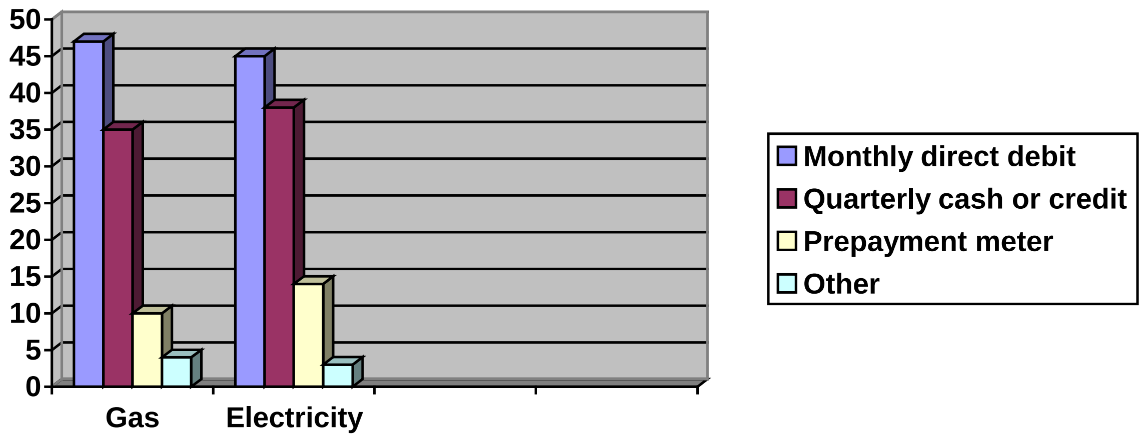
Preamble

National Energy Action (NEA) and Energy Action Scotland (EAS) are fuel poverty charities which together have almost fifty years' experience of working on fuel poverty issues across all four countries of the United Kingdom. NEA and EAS are concerned that fuel-poor households, who need to spend proportionately at least twice as much of their income on fuel as the average household, should have access to the full range of measures and services that can address and alleviate fuel poverty. One such service is the Fuel Direct payment system which can help households in receipt of certain means-tested benefits to manage or avoid fuel debt. The use of Fuel Direct as a source of assistance for vulnerable households has been in rapid decline in recent years, and NEA and EAS wish to consider why such a valuable potential support mechanism is not more widely used; the following short paper sets out their joint perspective.

Introduction

Domestic fuel payment methods have been devised over the years to accommodate a diverse range of household circumstances both to ensure that households can manage their energy bills and that energy supply companies receive payment for gas and electricity supplied. Tariffs such as direct debit are designed to be of mutual benefit since the customer receives a discount and the company benefits from a highly efficient and economical payment method. Most other households pay quarterly in arrears – generally an indication that fuel bills are affordable despite significant variation across the different seasons of the year. Other tariffs, such as prepayment, reflect the fact that many households need to be careful about their energy expenditure and that prepayment meters, although more expensive than other payment methods, can help to manage and prevent fuel debt.

The table below indicates how households pay for fuel in Great Britain with a small minority of households using 'other' methods – generally some form of regular weekly or fortnightly payment system. Within these 'other' methods, the least common and the most problematic is Fuel Direct, a payment option that now appears to be in terminal decline unless Government, Regulator and energy supply companies are prepared to act to promote its recovery.



Fuel Direct

Fuel Direct was initially introduced in 1976 as a payment method of last resort in response to growing concern over unaffordable energy prices and rising fuel debt and disconnection. The tariff was designed to protect those families and individuals who found particular difficulty in managing their household finances and in budgeting for their energy bills. Subsequent revisions have retained the principal elements of the scheme over the years subject to minor adjustments. The current operation of the scheme[1] is outlined in an agreement between the Department for Work and Pensions and energy supply companies licensed by the Office of Gas and Electricity Markets. The purpose of the Statement of Intent is to ensure:

- A domestic fuel supply is retained or restored
- Energy suppliers receive, at four-week intervals, payments towards the cost of ongoing fuel consumption and, where appropriate, debt recovery

Access to the Fuel Direct payment method is restricted to householders in receipt of Income Support, Income-based Jobseeker's Allowance or Pension Credit and whose debt to their energy supplier is at least £56.20.[2] Deductions from benefit will consist of an estimated figure to cover ongoing consumption, determined by a 'Decision Maker' within the Department for Work and Pensions, and a standard fixed weekly charge to defray any outstanding debt – currently £2.85 (£5.70 where arrangements are in place for both gas and electricity). The Joint Statement of Intent indicates that a supplier should endeavour to recover any debt by suitable means other than a Third Party Deduction.

The amount deducted for ongoing consumption should be assessed at intervals of 52 weeks, although this can be more frequent where the consumer or company believes that the deduction is not a reasonable reflection of actual consumption. Any variation in the amount of deduction must be authorised by a 'Decision Maker'.

A Fuel Direct arrangement will normally continue only while a debt is outstanding. However a Decision Maker within the Department for Work and Pensions may authorise the arrangement to continue for current consumption only where it is considered that this is in the interests of the householder and their family. In 2005, approximately 12,000 Fuel Direct arrangements were in place for ongoing consumption only.

Trends in Fuel Direct as a Payment Method

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gas	141,000	126,400	86,600	56,800	45,300	37,100	31,900	29,700	26, 800	27,900
Electricity	47,000	43,300	35,700	29,200	26,500	25,000	21,900	21,600	19,700	20,600
Total	188,000	169,700	122,300	86,000	71,800	62,100	53,800	51,300	46,500	48,500

The decline in Fuel Direct as a payment method is open to a number of interpretations including: falling numbers of households eligible for the scheme; the expansion of prepayment meters as a means to manage fuel debt; reluctance on the part of many energy suppliers to promote access to the scheme; and antipathy to Fuel Direct on the part of the Department for Work and Pensions because of the expensive and cumbersome nature of this particular payment method. It remains to be seen whether the apparent halt and partial reversal of the trend in 2005 is anything other than a statistical blip.

[1] Joint Statement of Intent on the DWP Third Party Deductions Scheme in Respect of Fuel and water Charges, DWP and Ofgem, 2004.
[2] The amount of the debt must be at least equivalent to a single person's entitlement to Income Support and is subject to annual uprating.

All relevant parties claim to be supportive of Fuel Direct and inclusion of this payment method in the range of options for domestic consumers is a formal Licence Requirement for suppliers of gas and electricity to the domestic market. So, in theory the industry supports Fuel Direct, the Government supports Fuel Direct and so does Ofgem, the industry Regulator. In addition, fuel poverty campaigners have long expressed concern about the potential loss of what they see as a valuable payment option for some particularly vulnerable households.

The Industry Perspective

From an industry perspective Fuel Direct has a number of benefits but also a number of disadvantages:

Advantages of Fuel Direct
• Simplicity for the customer • Straightforward administration • Capacity to clear debt • The scheme ensures access to fuel in severe weather (no concerns about self disconnection) • Administration costs are relatively low
Disadvantages of Fuel Direct
• DWP offices are inconsistent in applying eligibility criteria • The perception of Fuel Direct as a payment method of last resort meant that consumers were put on prepayment even when Fuel Direct was better suited to their circumstances • General administrative failure on all sides in terms of eligibility, amounts deducted and procedures for paying suppliers
Recommendations to Improve Fuel Direct
• Widen eligibility criteria to consumers not in debt • Replace manual administration with automated processes • Develop specific tariff applicable to Fuel Direct • DWP could impose charges to cover administration costs • Benefits entitlement checks to ensure income maximisation for customers on Fuel Direct as appropriate • Consistent approach to Fuel Direct across all relevant parties • Wider promotion to vulnerable households of the merits of Fuel Direct as a means of managing or preventing fuel debt • Customers on Fuel Direct should be automatically referred to energy efficiency programmes such as Warm Front/Warm Deal or those Energy Efficiency Commitment schemes operated by energy suppliers

The Regulatory Perspective

Standard Licence Condition 35
Standard Licence Condition 35 sets out the essential content of electricity and gas suppliers' *Codes of Practice on Payment of Bills and Guidance for Dealing with Customers in Difficulty*. Section 2 (b) of the Licence Condition requires that the licensee should: 'where such a facility is available, accept in payment for electricity [gas] supplied sums which are deducted at source from social security benefits payable to relevant customers with payment difficulties.'
Ofgem has long recognised the decline in Fuel Direct as a problem and convened a Working Group in 2000 to look at this issue. In addition Ofgem held a seminar in autumn 2004 to discuss ongoing concerns about the working of Fuel Direct. Ofgem's main concerns were the continuing decline in use of the payment method and what potential existed to improve and expand the scheme.

The Consumer Perspective

The report of the Working Group on Fuel Direct[3] recorded the views of consumer representative bodies. In general Fuel Direct was seen in a highly positive light and some forthright views were expressed on this subject:

- Fuel Direct was seen as an important payment option that should be developed rather than withdrawn
- It was felt that the scheme had never recovered from the previous Government's antipathy and eagerness to disengage from the scheme
- Fuel Direct was considered to be the only viable payment option in some circumstances including low-income households who cannot sustain a regular budget arrangement and for whom prepayment is not appropriate e.g. customers who are sick, disabled or who have restricted mobility or some form of mental health problem
- The scheme was seen as particularly valuable in avoiding the potential problems of hidden disconnection often associated with prepayment meter systems and also as a cheaper alternative to prepayment
- Consumer agencies reported difficulties in agreeing Fuel Direct arrangements even where, in the opinion of the agency, their client(s) met the essential criteria

The Government Perspective

The first clear indication of Government reservations about the Direct Deductions system appeared in a review carried out by the Department for Social Security in 1996 with the findings published the following year. *Review of Income Support Direct Payments for Fuel and Water: Report and Recommendations* concluded that the direct payments scheme continued to play an important role in protecting benefit recipients who might otherwise be at risk of having their fuel disconnected, and for whom no alternative payment methods are suitable and that the scheme should be maintained for the foreseeable future, as a last resort measure to avoid disconnection.[4]

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[3] Social Action Plan, report from Working Group on Fuel Direct, Ofgem, 2001
[4] House of Commons Hansard, February 26 1997, Col. 283

The main justification for revisions to the scheme put forward by Government were the cumbersome and expensive nature of the scheme which, at 1996 values, cost some £18 million to operate. In the event, any subsequent changes to the scheme appear to have been minor and, if anything, must be proportionately more expensive to operate since the existing infrastructure has been maintained to process fewer arrangements.

The current administration takes much the same optimistic view as its predecessor in describing the Fuel Direct scheme. Work and Pensions Minister, Malcolm Wicks MP, suggested that: 'the fuel direct scheme provides valuable, last-resort protection for people in receipt of income support and income-based jobseeker's allowance who are in arrears with their utility bills. Fuel companies generally make customers who have fallen into arrears aware of the scheme.[5]

This extremely complacent view can be contrasted with a piece of research [6] recently commissioned by the Department for Work and Pensions which found awareness of the Third Party Deductions scheme to be extremely patchy and ill informed, even amongst those for whom the scheme would represent a beneficial option.

Awareness of the concept of Third party Deductions was low among non-users. Among users, there was very little understanding of the term 'Third party Deduction' and understanding of how TPDs operated was often vague, especially when compared to the sometimes more developed understanding respondents had of Budgeting Loans. Indeed, much of the information concerning how TPDs operated in terms of eligibility, set-up, repayment rate decisions and revisions and the specifics of how many different TPDs could operate at the same time were consistently misunderstood or misinterpreted, even by the more 'informed user'. User understanding appeared to be largely governed by experience, rather than by any written or oral sources of information or advice.

Respondents were often unclear about the terms of their own TPDs, such as how their TPD was set up and how much was outstanding. Consequently, there were calls for better administrative procedures in this regard.

The report also highlighted that there were families in the sample with arrears who were unaware of TPDs but [who] would have undoubtedly benefited from the facility.

The Future of Fuel Direct

There is still considerable support for Fuel Direct across a wide range of agencies concerned with fuel poverty issues. NEA, energywatch and the House of Commons Trade and Industry Committee[7] have all put forward proposals that would see Fuel Direct transformed into a more conventional payment method whilst retaining its emphasis on households in, or at risk of, fuel debt. The Trade and Industry Committee endorsed NEA's view that there was scope to revive Fuel Direct as a more generally available and effective tariff: '…we agree with National Energy Action that it [Fuel Direct] could develop into an acceptable tariff rather than [as at present] a virtually moribund

[5] House of Commons Hansard, February 4 2002, Col. 760
[6] Perspectives of Social Fund loans and third party deductions – A qualitative study of recipients, carried out by the National centre for Social Research on behalf of the Department for Work and Pensions, Research Summary, DWP, 2005

payment method of last resort. To achieve this, eligibility for the scheme should be widened; the thrust of the scheme should be to enable customers to prevent the accumulation of debt rather than just to repay it when they are on the brink of disconnection; and the administration of the scheme must be automated and made consistent throughout the country so that the energy companies are not deterred from using it by its difficulty, complexity and expense.'[7]

The Government response to these recommendations was not positive: 'The Government is grateful for the Committee's views on Fuel Direct. The Department for Work and Pensions, which is responsible for the operation of Fuel Direct, has already undertaken to ensure both that the provisions of the scheme are consistently applied and that the automation of scheme procedures is maximised. However, the Government does not propose to modify the structure of the scheme in the way that the Committee proposes. That proposal is not compatible with either the Government's strategy of tackling financial exclusion by encouraging more people into the financial mainstream or its policy of smoothing the path from welfare benefits into employment, which represents the best route out of poverty.'[8]

In the absence of positive Government input to the debate on the future of Fuel Direct it appears to be the responsibility of the industry, the regulatory body and the voluntary sector and consumer bodies to develop an enhanced version of Fuel Direct that will retain the existing merits of the scheme and also build on them to develop a viable and advantageous tariff for low-income and other vulnerable households. NEA and EAS believe that further research is required to understand more fully the impact and benefits of Fuel Direct for disadvantaged consumers. The findings of this research could then be used by Government and Ministers in order to secure the future of Fuel Direct as a means of supporting vulnerable and fuel-poor households in paying for fuel, ensuring they remain on supply and preventing the misery and, in extreme cases the tragedy associated with the lack of affordable warmth. There is a real prospect that next winter will see continued high energy costs placing an added burden on fuel-poor households. It is essential that the best use is made of existing resources and mechanisms and that the beneficial potential of Fuel Direct be fully utilised.

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[7] Trade and Industry Committee, Fifth report of Session 2004-2005, Debt and Disconnection: gas and electricity supply companies and their domestic customers.
[8] House of Commons Trade and Industry Committee, Debt and Disconnection: Government Response to the Committee's Fifth Report of Session 2004-2005, First Special Report of Session 2005-2006, 2005.

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