

Energy price rises and fuel poverty

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With no end to high prices in sight, can anything be done to soften their impact?

Prices of electricity and gas have increased for most of the last decade, road fuel for most of the past two decades. Price rises have impacts on industry, economic growth and inflation. Millions more households are in fuel poverty and spending on heating, power and motoring has increased by billions of pounds. There is little prospect of a sustained reversal in these trends. It is more likely that price increases will continue into the medium term at least.

The long term reductions in domestic gas and electricity prices to the early part of this century were in part due to the impact of liberalisation and competition in these sectors. These cuts were rapidly reversed in the period from late 2005. Combined gas and electricity bills were typically around £1,200 in 2009; a 30% real increase in five years. The cost of heating with oil or LPG is more expensive than gas. Road fuel prices have been more volatile, but the long term trend has been consistently upwards, with duty increases the main cause in the 1990s and oil prices dominating since then.

Households spend £63 billion a year at present on heating, power and transport; just

over 7% of all spending. The cash total has more than doubled over the last 10 years. Energy price rises have been proportionately higher for industry and have direct impacts on costs and competitiveness, especially for transport companies and energy intensive industries.

There are many reasons for these increases - declining UK output, increased reliance on international markets, increased global demand, links between oil and gas markets, actions of some supplying countries, taxation and policies aimed at cutting carbon emissions.

FUEL POVERTY

Higher fuel prices have led to fuel poverty doubling between 2004 and 2007. Further increases are expected which could mean around one quarter of all households (6 million) in fuel poverty in 2009 - back to mid-1990s levels.

The Government and devolved administrations have targets to eradicate fuel poverty among vulnerable households by

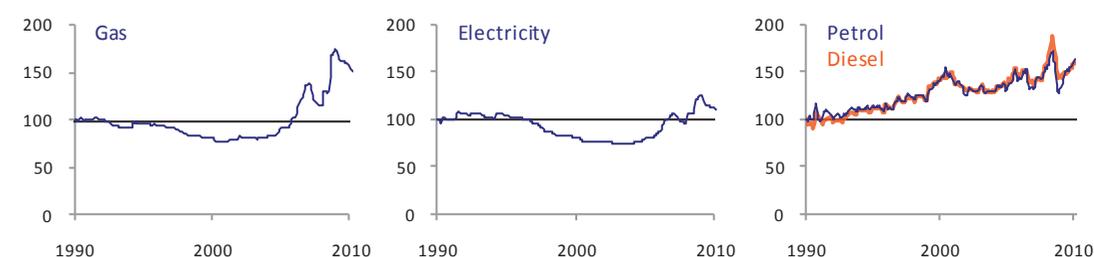
Downward trend in fuel poverty reversed since 2003/04

UK households in fuel poverty, millions

	1996	1998	2001	2002	2003	2004	2005	2006	2007
Vulnerable	5.0	3.5	2.0	1.8	1.5	1.5	2.0	2.8	3.3
Total	6.5	4.8	2.5	2.3	2.0	2.0	2.5	3.5	4.0

DECC

Indices of real domestic fuel price levels



2010 and 'as far as reasonably practicable' no household should be in fuel poverty by 2016 (2018 in Wales). The 2010 target is not expected to be met and the 2016/18 targets will be very challenging.

The Government spent more than £20 billion on measures to reduce fuel poverty over the period 2000-08. The largest elements were Winter Fuel Payments, Decent Homes and Warm Front. Spending on these measures is planned to be almost £11 billion in 2008-11. Energy companies are expected to spend £3.9 billion over these years on energy efficiency and social assistance for households.

FUEL POVERTY

A household is said to be in fuel poverty if it needs to spend more than 10% of its income on fuel to maintain a satisfactory heating regime. Fuel poverty is largely down to three factors – income, energy prices and energy efficiency.

The era of cheap energy is over. Price rises are likely to continue into the medium term at least – oil prices are projected to remain high or increase as world demand recovers post-economic crisis, impacts of temporary supply cuts are magnified in a 'tight' market, the fuel duty escalator has been re-introduced, energy companies need to invest very large sums in the network, a power supply squeeze is expected before the end of the decade and costs of measures to cut carbon emissions are set to increase. Government action can help to diversify and secure supply but can only have a minor impact on world prices. This leaves energy efficiency as the major policy area which can reduce energy bills and fuel poverty.