

# The Cost of Fuel in Rural Areas

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The Government recognises that the cost of both road fuel and domestic heating energy are significant issues in rural communities, particularly in more remote areas. The position is complex and varies across the country, but fuel and energy prices in many rural areas are higher than the national average and choices that urban residents take for granted, for example between competing petrol suppliers or different forms of heating fuel, are often not available to rural consumers.

Given this, Defra's Ministers, who are responsible for championing rural issues within Government, decided to explore actively the options available to help those in remote rural areas with the cost of fuel. They, and their officials, have worked with counterparts in Her Majesty's Treasury (HMT) and the Department of Energy and Climate Change (DECC) to reach a better understanding of current pressures and ensure that the particular needs of rural residents are taken into account as relevant policies and programmes are developed and implemented.

This short report summarises the outcomes of that work. It does not seek to present the full detail of other Departments' policy responsibilities, for example HMT policy on road fuel duty or DECC policy on carbon emissions, energy efficiency and fuel poverty. Instead, it seeks to highlight action taken across a wide range of policies and initiatives to mitigate the negative impact of fuel and energy prices in rural areas.

In addition to summarising progress over the past year, this paper outlines a number of further initiatives which will also deliver benefits in rural areas. Defra is currently working with a number of other Departments, including HMT and DECC, to produce a Government Rural Statement, intended for publication later this Spring. This Statement will include more information about the Government's plans, aims and objectives for people, communities and businesses in rural areas, including in relation to fuel and energy issues.

## Road Fuel

Road fuel prices tend on average to be slightly higher in rural petrol stations. In June 2010, the average price of unleaded fuel in sparse rural areas was 2.1p per litre more than the national average<sup>1</sup>. However, this differential varies across the country, depending on factors such as remoteness and local competition. As well as often paying higher fuel prices, rural residents generally have to travel greater distances in the course of their daily lives (on average, people living in the most rural areas travel 53% further than those living in urban areas<sup>2</sup>) and are less able to access regular public transport alternatives.

## Actions taken by the Government

- The Government has taken action at Budget 2011 and the 2011 Autumn Statement to help keep down the cost of driving. This includes:
  - A cut in fuel duty since April 2011, of 1 pence per litre;
  - Abolition of the duty escalator;
  - Introduction of a fair fuel stabiliser;

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<sup>1</sup> Experian Catalist petrol and diesel prices, June 2010

<sup>2</sup> [Transport statistics](#)

- Deferring the increase that was planned for 1 January 2012 to 1 August 2012;
  - Cancellation of the original increase that was planned for 1 August 2012 to ensure that there will be just one inflation-only increase this year.
- The Government has responded to concerns about the very high price of petrol in the most remote rural parts of the UK by introducing, from 1 March 2012, [a 5 pence per litre discount on petrol and diesel in certain island communities](#). Fuel retailers based on the Inner and Outer Hebrides, Northern Isles, the islands in the Clyde and the Isles of Scilly were eligible to join the scheme. This is a pilot scheme for remote islands only. Pump prices in these areas are particularly high compared to mainland areas because of the high costs of transporting and distributing fuel to rural island communities.
  - The Government has given Local Authorities the opportunity to support the continued availability of petrol in rural areas by giving them new freedoms from April 2012 to offer [discretionary business rate discounts](#) to key local businesses as they see fit. Authorities can use these powers to provide a discount to any petrol station.
  - The Office of Fair Trading (OFT) has recognised the concerns that exist about the operation of the market in remote communities and announced a new study into the challenges facing consumers and businesses in these areas across the UK. [The OFT said in its recent call for evidence](#) that it recognised that the prices of many goods and services were frequently higher in remote communities and that fuel prices are a common cause for concern for those who need to travel long distances to get to school, to work or to the shops. Defra worked with the OFT in planning this initiative.

## The Government's Plans for Future Action

- Defra will continue to work with the OFT as it takes forward its study into remote communities, and will work with colleagues across Government to consider options for action once the OFT has concluded its work.

## Domestic Heating Fuel

The Government is aware of estimates suggesting that rural households tend to pay more for their heating than their urban counterparts, (total modelled bills for rural households to ensure they meet the 'adequate standard of warmth' defined for the purpose of fuel poverty measurement average £1,620 per year, compared to £1,274<sup>3</sup> for urban households, although there are some caveats around these figures) and recognises that fuel poverty rates are higher in rural areas than urban places. Under the current definition of fuel poverty, 22.8% of rural households in England were in fuel poverty in 2009 compared to 17.3%<sup>4</sup> of households in urban areas. This is in part because a greater proportion of rural households are not covered by the gas grid (36% compared to 8%<sup>5</sup>),

<sup>3</sup> DECC fuel poverty statistics 2009

<sup>4</sup> DECC: Trends in Fuel Poverty 2003-2009

<sup>5</sup> Data from the English Housing Survey 2009

leaving consumers reliant on more expensive forms of heating such as electricity, heating oil and LPG - in 2009, average fuel costs each week per consuming household were around twice as much for households using heating oil (£24.41) compared to households using gas (£12.21)<sup>6</sup>.

The Government is keen to find ways of helping all households, including those in rural areas, to reduce their energy bills and to become more energy efficient. It has introduced a range of initiatives to help householders improve energy efficiency, address fuel poverty and encourage greater uptake of renewable energy – an area where rural communities have ready access to significant natural assets and the potential to make an important contribution to the nation's renewable energy target of generating 15% of our energy needs from renewable sources by 2020.

## Actions Taken by the Government

### Energy Efficiency

- [The Carbon Emissions Reduction Target](#) (CERT) is an obligation placed on the big six energy suppliers which requires them to reduce carbon dioxide emissions from homes. Suppliers meet their CERT targets by promoting and installing approved energy efficiency measures, such as loft and cavity wall insulation. Defra worked with DECC during its review of the CERT scheme in 2011, and this led to changes to the scheme which have encouraged energy suppliers to install solid wall insulation in off-grid locations, particularly benefitting those in remote rural locations.
- Defra has worked closely with DECC on the design of the [Green Deal and Energy Company Obligation](#) (ECO) to ensure that rural households will be able to benefit from these major new initiatives when they are introduced later in 2012. This includes linking repayments to electricity bills so that households off the gas grid are able to benefit, as well as ensuring that the ECO Carbon Reduction Target can provide additional support for hard to treat homes by requiring energy suppliers to help with the cost of solid wall insulation.

### Fuel Poverty

- The [Warm Front](#) scheme gives households in receipt of certain income-related benefits, living in the least energy efficient homes, grants to help them install insulation and heating improvements to make their homes more energy efficient. Most households can apply for grants of up to £3,500. However, households off the gas grid, which are predominantly in rural areas, can apply for a grant of up to £6,000.
- In recognition of the importance of helping the most vulnerable in society to stay warm in winter, the Government has introduced the [Warm Home Discount](#) on top of the [Winter Fuel Payment](#) for pensioners and the [Cold Weather Payments](#) made to eligible households in periods of cold weather. The Warm Home Discount scheme was introduced in April 2011 to require energy suppliers to provide support with energy costs worth £1.1bn by March 2015 to low income and vulnerable

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<sup>6</sup> Quarterly Energy Prices, table 2.6.2. DECC

households. In total it is expected that around 2 million households per year will benefit through the scheme. The majority of support under the scheme will be provided through the household's electricity bill, ensuring that eligible households off the gas grid can also access assistance.

- Professor John Hills of the London School of Economics was commissioned by DECC Ministers to carry out a review of the current Fuel Poverty definition, in March 2011. The aim of the review has been to consider fuel poverty from first principles, to develop possible formulations for a future definition and forms of target, and to assess the cost effectiveness of different interventions to help focus Government resources at ways of tackling the underlying causes of fuel poverty. The [final report from the review](#) was published on 15 March. In it, Professor Hills found that in 2009, under his measure which counts households as fuel poor where they have both low incomes and required energy costs above typical levels, 20% of fuel poor households were in rural areas. The average fuel poverty gap for rural households was £622, compared to £414 for all households, suggesting that fuel poverty is more severe in rural households than in non-rural households. Defra worked closely with DECC and Professor Hills throughout the review to highlight the greater prevalence of fuel poverty in rural areas and its causes, including being off the gas grid.

## Fuel Prices

- Defra worked closely with the OFT during its study into the [off gas domestic heating fuel market](#) in 2011. The study found no evidence of a competition problem that would require either Competition Act enforcement or intervention to regulate prices in the market. However, it did find grounds for concern about compliance with consumer law. Although the study found no reasonable suspicion or evidence of collusion, the OFT has taken a number of actions as a result of the study, including requiring greater clarity in the ownership of fuel price comparison websites, encouraging industry trade bodies to ensure compliance with consumer protection legislation, and pursuing complaints about contract terms in the supply of bulk LPG. In addition, the OFT has said that it will continue to monitor the situation and has not ruled out taking action if further evidence comes to light.
- The Government recognises the higher energy costs of those not connected to the gas grid, and is keen to support communities in developing local level solutions, such as oil buying groups, which can save households a significant amount of money on their heating costs. Defra has a four year (2011/12 – 2014/15) investment programme with the Rural Community Action Network (RCAN). Amongst other things, RCAN promotes local action in relation to fuel purchasing, for example through ORCC Trading Limited, a social enterprise initiative set up by Oxfordshire Rural Community Council to enable communities to benefit from [bulk oil buying](#). This model is not only working well in Oxfordshire, but is being used as the basis for oil buying schemes in several other parts of the country.
- In addition to supporting RCAN, Defra and DECC worked closely in Autumn 2011 with Citizens Advice, Consumer Focus, Action with Communities in Rural England (ACRE) and the Federation of Petroleum Suppliers on the development of buying tips for consumers using heating oil and a Best Practice Guide for [Oil Buying Groups](#). This publication provides practical information to help communities to set up oil buying groups and ideas on how to run and manage a group once

established. It also highlights some pitfalls to avoid and helps assess what is the best option for a community

## Renewable Energy

- DECC introduced the non-domestic [Renewable Heat Incentive](#) in November 2011. This initiative is designed to increase the uptake of renewable heat technologies and reduce the UK's carbon emissions by paying communities and businesses for the heat that they generate from renewable sources. The scheme is ideally suited to rural areas, which have greater space and capacity to install renewable technologies, including biomass boilers and ground source heat pumps. Defra worked with DECC during the development of the initiative and, following its introduction, obtained confirmation from DECC that the RHI is open to rural communities, for example for village halls, as well as to rural businesses.
- DECC has introduced the [Renewable Heat Premium Payment](#) (RHPP) in advance of the domestic RHI. The RHPP is a short-term grant scheme, designed to provide a contribution to the installation cost of a domestic renewable heat technology. The scheme is mainly focussed on households off the gas grid, and is, therefore, particularly suited to households in rural areas. In Autumn 2011, Defra worked closely with DECC to promote the scheme to potential rural beneficiaries, including hosting a seminar for stakeholders such as ACRE who could help engage rural communities.
- In addition to the existing opportunities created by the Feed in Tariffs scheme for rural communities considering investing in small-scale low-carbon electricity generation, the Government introduced [permitted development rights for small scale wind turbines and air source heat pumps](#) on domestic buildings in December 2011. Permitted development on non-domestic buildings for the range of small scale technologies apart from air source heat pumps and small wind turbines comes into force in April 2012. This removes the requirement for planning permission from local authorities for development that meets certain requirements. These permitted development rights build on rights already in place for solar PV, solar thermal, ground source heat pumps, water source heat pumps, and flues for biomass heating systems and combined heat and power systems. This will benefit rural households and communities who wish to explore the potential for developing their own local renewable energy opportunities.
- In line with the Government's Coalition Agreement commitment to support Community Energy, the Government announced on 29 November 2011, as part of the Defra-led Rural Economy Growth Review, its intention to set up a [£15m Rural Communities Renewable Energy Fund](#). This Fund will provide loans to help rural communities interested in developing larger scale renewable energy schemes to produce cheaper energy and generate an income stream for community benefit.

## The Government's Plans for Future Action

### Energy Efficiency

- Defra will work with DECC as it introduces the Green Deal and ECO, in order to monitor its impact in rural areas. Defra will encourage DECC to take appropriate action to address any issues or concerns that arise.

## **Fuel Poverty**

- Defra will work closely with DECC to consider the rural implications of the Hills Review recommendations, and support it in ensuring that rural issues are considered as part of the proposals for a new definition of fuel poverty, which will be consulted on in the summer.

## **Fuel Prices**

- Defra will continue to work with the OFT as it monitors the operation of the off-gas domestic heating fuel market following its review, and will encourage the OFT to take any action that appears necessary.

## **Renewable Energy**

- Defra and DECC will work together to establish the £15m Rural Community Renewable Energy Fund during 2012/13, and ensure that rural communities are able to get the best possible deal from it.
- Defra will work with DECC to monitor the impact of the Renewable Heat Incentive and revised Feed in Tariff scheme in rural areas, and encourage DECC to take appropriate action to address any issues or concerns that arise.
- DECC has announced a second phase of the RHPP which will include a second round of the social landlord scheme and will be looking into developing a new competition for communities interested in developing buying groups. Defra will work with DECC to help promote this new source of support for rural households who will be well-placed to benefit from it.

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