Fuel Poverty Forum – Policy Brief

Over the last quarter, there have been 5 main policy developments. This brief intends to simply explain these developments and articulate what this means for fuel poor and vulnerable customers The topics that it will cover are:

- Price Caps
- ECO3
- Private Rented Sector Regulation (Minimum Energy Efficiency Standards)
- The National Infrastructure Commission's National Infrastructure Assessment
- The Labour Party's new "Green Transformation" policy paper

Alongside this paper, the briefing pack will contain an accompanying presentation which can be used, as well as NEA's draft "Lines to take" on these and other areas.

Price Caps

What has happened:

- Ofgem have finally released details of the price cap on standard variable tariffs, after months of consultations with industry stakeholders.
- They have said that the new price protections from increasing prices could save 11 million customers on Default Tariffs on average £75, and up to £120, per year, a total of around £1bn per annum.
- The cap works by limiting the unit rates and standing charges that suppliers can charge within their standard variable (i.e. default) tariffs. These limits are determined through detailed estimates of wholesale, network and policy costs, as well as a stretching supplier operation cost, designed to allow a small profit per customer for "efficient" suppliers. These costs are assessed every six months, meaning that the level of the cap could change twice a year. It is likely that the cap will increase in April 2019.
- All customers who are on a standard variable tariff will be covered by the cap, except for prepayment customers, who are covered by a separate cap (the safeguard tariff). The crib sheet in appendix 1 tries to explain this.
- This will provide relief to many customers who have been paying a 'loyalty premium' for years. In the words of Martin Lewis, it will provide a "fair deal" (as it reflects the real underlying costs of supply and minimises profits) but not a "good deal" as savings are still likely to be found through switching to fixed deals.

What does it mean?

- The outline of the price cap throws up the very real risk that the most vulnerable consumers could actually lose out depending on how Ofgem responds over the coming months.
- This is because Ofgem has proposed that customers who are not on prepayment meters, but are receiving the WHD, will be removed from the existing Safeguard Tariff. Ofgem say the intention is to ensure they will now be automatically protected by the new Default Tariff cap instead. At the time of switching them over, these customers will feel little impact as both caps are set at the same level. However, there are important differences between the two caps.
    - Firstly, the Default Cap is only meant to last until 2020, possibly 2023, so it doesn't afford the longevity that Ofgem and the UK Government have recognised is needed for the most vulnerable customers. The intention may be to continue with such protection, but that needs spelling out in terms.
    - Secondly, the Default Cap includes provisions for the recovery of some costs that the Safeguard Tariff does not, for example those relating to smart meter delivery. As a result, there is an evident risk that that the Default Tariff Cap could rise more quickly than the Safeguard Tariff would in the future.
- NEA believes Ofgem should preserve and follow through with their plans to extend the Safeguard Tariff to all households eligible for the Warm Homes Discount scheme. This support should endure after the Default Cap is removed.

ECO 3

What has happened:

- The Government has released their policy decisions on the next ECO period, which will run from 2018 to 2022, due to start on October 1st. At the time of writing, the legislation has not gone through Government, but is due to pass through in "Autumn"
- The main development is that the scheme will now be exclusively for the affordable warmth segment. This means that the scheme will be targeted at 6m fuel poor, vulnerable and low income customers.
- The new scheme requires suppliers to meet 15% of their obligation through delivering measures in rural areas. There will also be an uplift for measures delivered to low income households living in F and G rated properties under the Flexible Eligibility part of the scheme. However, landlords with F/G properties will not be able to access this money, due to the upcoming minimum energy efficiency standards that they must adhere to.
- A minimum of 17,000 solid walled homes (a reduction from 21,000) must be treated every year, either through solid wall insulation or if equivalent savings can be achieved in that property, using a combination of other insulation and renewable heating technologies.
- Up to 10% of a supplier's obligation can be met through innovation. Two options are allowed:
    - Demonstration Actions – these will have to be at the final stages of development and to have already been initially tested in a live environment. One of the aims of these are to ensure that new technologies can make their way into the ECO framework and become "business as usual" as time goes on.
    - Innovation Score Uplifts - An uplift of 25% to the measure types existing deemed score will be applied for Innovation Score Uplifts for the length of the scheme or until the 5% delivery cap is reached.
- ECO 3 will allow limited oil boiler delivery to take place within the broken heating system cap and will also allow the repair of broken oil boilers within the 5% cap for all boiler repairs.
- Government have decreased the supplier threshold phased way to 150,000 customer accounts (or equivalent) from April 2020, meaning that more suppliers will be obligated to take part in the scheme, and more customers will receive measures.
- Ofgem have set out some rules around the administration process for ECO 3. I haven't had time to go through it, so direct any questions regarding this to me via email or call.

What does it mean?

- Targeting ECO 3 on fuel poor customers is a good step, but not nearly enough to meet fuel poverty targets. We estimate that the annual spend of ~£700m is nowhere near enough to support all fuel poor households by 2020, and will leave 240,000 without the support that they badly need.

- The decision to allow the replacement of oil boilers to be funded within the ECO scheme, is a positive one. It will support households in the deepest of fuel poverty to gain access to a replacement oil boiler when they need it most. However, the limitations placed on the replacements mean that many of the 140,000 fuel poor households that rely on oil boilers may not be able to access any help.
- Allowing innovation within ECO is, to some extent, a positive development. However, it must be ensured that any innovation projects provides tangible benefits to the participating households and that suitable checks are made to ensure that customers get the support and service that they will need.
- The reduction in requirement for solid wall insulation is nowhere near enough to treat the homes that require help. The level proposed would take over 18 years to deliver this support to the current fuel poor population in support of the statutory fuel poverty targets or the near-term milestones
- it is still clear that ECO alone cannot deliver the measures necessary to meet fuel poverty targets, and money needs to be found from elsewhere in order to do so. We, alongside several advisory bodies, are recommending that energy efficiency be a national infrastructure priority so that extra funding can be used to pay for domestic efficiency improvements. We will continue to push on this issue.

Private Rented Sector – Minimum Energy Efficiency Standards

<u>What has happened:</u>

- Government has consulted on changing how minimum energy efficiency standards work for the private rental sector.
- There are three key proposals:
    - To remove the 'no cost to the landlord' principle within the current domestic minimum standard regulations;
    - To implement a cap on the required contribution from a landlord when upgrading an EPC F or G rated property to EPC E. This would mean that the landlord would never have to spend more than the cap. A £2,500 cap was proposed;
    - Where landlords can obtain third party funding for the improvements required, for example, through the Green Deal or local authority grant funding, they will not have to contribute their own funds, unless there was a shortfall. In that event, the landlord's contribution would be such an amount as may be required to bring the property up to an EPC Band E, or as near as technically feasible, up to the value of the cap
- We are awaiting the final decision on these proposals.

<u>What does it mean?</u>

- Removing the "No cost to the landlord principle" is a good step forward and will ensure that more homes are easier to keep warm.
- However, the £2,500 cap might not be enough to help households in deep fuel poverty, especially where there is no central heating, which costs ~£4k. This effectively means that landlords of homes without central heating will not have to install first time central heating in order to meet the standard (as the cost is greater than the cap)
- This is exacerbated by the ECO3 rules which say "The Government has decided to restrict ECO measures allowed in the private rented sector to reflect that landlords are separately required to meet minimum energy efficiency standards for certain private rented sector properties in England and Wales. As such, EPC Band F and G rated properties will only be eligible for high cost measures (e.g. solid wall insulation and renewables measures) so that landlords do not use ECO to meet their basic requirements." Because of this, landlords cannot access ECO funding to make improvements to EPC E, even if the required improvements cost over £2.5k
- NEA, amongst other organisations, is pushing for the cap to be increased to £5k. We are hopeful that the Government will have the appetite to increase the cap for the final decision, especially given the number of consultation responses that argued for such a change in policy.

National Infrastructure Assessment

What has happened:

- The National Infrastructure Committee (NIC) has released their National Infrastructure Assessment, which details infrastructure priorities for the UK going forward. One of the priorities identified is the quality of housing stock in the UK, from an energy efficiency perspective. Several Recommendations are made.
- “The Commission recommends that government should set a target for the rate of installations of energy efficiency measures in the building stock of 21,000 measures a week by 2020, maintained at this level until a decision on future heat infrastructure is taken. Policy reccomendations to achieve this include:
    - Allocating £3.8 billion between now and 2030 to deliver energy efficiency improvements in social housing.
    - Government continuing to trial innovative approaches for driving energy efficiency within the owner occupier market.
    - Government setting out, by the end of 2018, how regulations in the private rented sector will be tightened and enforced over time.

What does it mean?

- The recommendation to should set a target for the rate of installations of energy efficiency measures in the building stock of 21,000 measures a week by 2020 is a very welcome one, but the policy reccomendations to achieve this do not go far enough to credible get close to the target.
- NEA believes that a centrally funded, area based scheme that could commit ~£2bn a year would be the optimal infrastructure improvement project that could solve the energy efficiency crisis and provide a lasting solution to fuel poverty.

Labour Environment Policy

What has happened:

- At the Labour Party Conference, the party released its new "Environment Policy" with some high level policies that would be enacted should Labour come into power. Policies include:
  - Upgrade 4 million homes to Energy Performance Certificate (EPC) band C in our first term, investing £2.3bn per year to provide financial support for households to insulate their homes;
  - The take up and delivery of insulation schemes will be driven by local authorities working street to street – addressing one of the main reasons for the UK's poor record on insulation to date: over-reliance on energy companies and market mechanisms to encourage households to insulate their properties. In addition to cutting greenhouse gas emissions, this would save at least £275 per year for affected households, improve the health and wellbeing of families, reduce costs to the NHS and create new skilled jobs
  - Introduce a zero carbon homes standard for new-build homes as soon as possible – an important long-term programme previously in place until it was abandoned by the Conservatives
  - Prioritise affordable homes in a new zero carbon homes programme, ensure all council and housing associations reach EPC band C, and provide funding to support councils and housing associations to build new homes to Passivhaus standards
  - Tighten regulation of privately rented homes, blocking poorly insulated homes from being rented out
  - Introduce new legal minimum standards to ensure properties are fit for human habitation and empower tenants to take action if their rented homes are sub-standard

What does it mean?

- A superficial level, these policies align well with what NEA has been asking for with respect to ending fuel poverty. The headline policy of a large energy efficiency scheme is especially pleasing to see.
- Labour, however, are not currently in Government, and an election isn't due until 2022. Enacting these policies in the short term therefore requires a change of Government and an early election. This is an only partially credible scenario, given that the conservative party will not want to cede power easily, especially if there is a 'risk' of a labour government

- Assuming that Labour do manage to get into power, an important question is what policies can/will they enact first. It is likely that some of the headline policies will take a large amount of time and effort from the civil service, meaning that those policies that do not make it into the queens speech may not get the chance to run. It is therefore imperative that labour make energy efficiency investment a priority to ensure that this can happen in a single government sample (if they are able to get elected to power.

What’s Coming Up?

There are three main things coming up:

- Consultation on the future of WHD scheme
- Comprehensive spending review
- Network regulation review (RIIO-2)

We have done work on each of these.

Future of Warm Home Discount:

- We are proposing that broader group customers receive the benefit automatically. This could take two forms, either a reduced payment with the same overall spend, or the same payment with an increased overall supplier spend. We are advocating for keeping the payment the same.
- This would cost £300m/ year overall or ~£12 per dual fuel customer. This is significant and so we are looking at how to fund this. 3 options are:
  - Offsetting the costs against other government plans (i.e. the smart systems and flexibility plan which will save >£1bn/year up to 2050)
  - Transferring some of the winter fuel payment over to a WHD pot (i.e. fund the increase out of general taxation)
  - Ending the cold weather payment and transferring this money to a WHD pot (i.e. fund the increase out of general taxation)

Comprehensive Spending Review/Budget 2018

The Government is currently considering its spending within the CSR and this year’s budget. Broadly, our asks amount to:

- An area-based neighbourhood retrofit programme to complement ECO
- The need for a near-term cross departmental funding stream to plug the gaps for ECO on boilers/facilitate health and housing interventions/prescription plus (essentially re introduce the previous Department of Health Warm Homes Healthy People Fund/DECC health Booster Fund but make the case with evidence from HIP, UKFPM and UoR reports)
- Make the case for the WHD to be expanded to provide automatic rebate for low income working families (see above)

Network Regulation (RIIO-2)

- Ofgem are doing work surrounding the next price control period for regulated companies in the energy industry (i.e. gas and electricity networks and system operators)
- We are engaging on this to ensure a few key outcomes:
    - Electricity networks to have an incentive to install energy efficiency measures in homes, to complement their current incentive to install measures in their own infrastructure.
    - Network innovation projects to have a greater focus on fuel poor households.
    - The fuel poverty network extension scheme (FPNES) to be kept and extended
    - Enhance the gas network incentives already in place to raise awareness of the risks of Carbon Monoxide (CO) poisoning and the direct links between the equally life-threatening risk of being in fuel poverty.

Appendix 1 – Price Cap Explainer

<u>As it stands (i.e. before the wider price cap)</u>

Safeguard Tariff – Running until Jan 1st

Why it's there	To protect the most vulnerable customers from unfairly high energy prices
Who it covers	All PPM customers and those who receive WHD who are also on standard variable tariffs
When it runs (in this form)	Until Jan 1st 2019 (best guess)
Level of the cap	For an average dual fuel customer, £1136/year. N.B However, the £/kWh and standing charge varies per region.
How it works	Ofgem sets the level of the cap based on a consideration of the costs that a supplier faces (wholesale, network, policy, operational, tax, profits etc). The level of the cap is reviewed on a six-monthly basis. Customers are identified through data matching and prepayment flags, and are automatically subject to the safeguard tariff cap.
What does NEA think about it?	It's good that a tariff exists to protect vulnerable customers, but it should capture not only WHD recipients, but customers eligible for WHD too (i.e. the whole broader group).

<u>As of January 1st (as of next year)</u>

Safeguard Tariff – Running from Jan 1st

Why it's there	Same as above
Who it covers	All PPM customers.
When it runs (in this form)	From Jan 1st 2019 (best guess)
Level of the cap	For an average dual fuel customer, £1136/year. N.B However, the £/kWh and standing charge varies per region.
How it works	As above
What does NEA think about it?	It's good that a tariff exists to protect vulnerable customers, but it should still capture the WHD recipients, and we still believe that all customers eligible for WHD should get it too. This is because the default tariff (which will now protect these customers) will not give the same level of protection as the safeguard tariff. It has a finite lifetime and will increase at a quicker rate.

Default Tariff – Running from Jan 1st

Why it's there	To ensure that suppliers are not overcharging their customers through standard variable tariffs.

Who it covers	All customers on an standard variable tariff (SVT) or default tariff.
When it runs (in this form)	From Jan 1st 2019 (best guess)
Level of the cap	For an average dual fuel customer paying by direct debit £1136/year. For an average dual fuel customer paying by standard credit £1219/year. N.B The £/kWh and standing charge varies per region.
How it works	Ofgem sets the level of the cap based on a consideration of the costs that a supplier faces (wholesale, network, policy, operational, tax, profits etc). **It contains several more costs than the safeguard tariff, such as smart metering costs. This means that it will likely rise quicker than the safeguard tariff in the future.** The level of the cap is reviewed on a six-monthly basis.
What does NEA think about it?	It's good that a tariff exists to protect customers, but it should not capture vulnerable and fuel poor customers (i.e. customers eligible for WHD). These should be on the safeguard tariff. This is because the default tariff (which will now protect these customers) will not give the same level of protection as the safeguard tariff. It has a finite lifetime and will increase at a quicker rate.

Important Note

Some media outlets are incorrectly reporting that the cap works as a cap on the annual bill i.e. that SVT customers will never pay more than £1136/year. **This is incorrect**. The price cap is a cap on the standing charge and unit rate that suppliers can charge a subset of customers, meaning that if annual cost will still vary with usage as usual (but just at a lower rate).