



Action for Warm Homes

Response to Call for Evidence on the Dieter Helm Cost of Energy Review

National Energy Action

Around 4 million UK households are in fuel poverty, unable to afford to live in a warm, dry and safe home. National Energy Action (NEA) is the national charity working to end fuel poverty in England, Wales and Northern Ireland. Our work encompasses campaigning and advocacy, research and analysis, along with project delivery in local communities.¹

NEA is grateful for the opportunity to respond to the call for evidence following Dieter Helm's Cost of Energy Review. The review is broad in scope and looks to set out a long term framework for the electricity industry. Our short response will be limited to those aspects which have particular, or potential, consequences for households in fuel poverty.

Our general view

The terms of reference for the review focused on the major challenges across the electricity supply chain. As Government considers how to move forward it will need to take a broader view of how the wider energy system interacts and impacts on the fuel poor and how to identify and prioritise those areas that might achieve the greatest welfare gains for those households.

What matters should the Government take into account in considering the policy framework for electricity generation?

Helm argues for exemptions from legacy and policy costs for 'industry' and that these costs are refinanced. Neither what should count as 'industry', nor how such costs might be refinanced is clearly identified. NEA believes that even when 'industry' is restricted to a defined set of intensive users, these proposals would increase the burden on domestic and vulnerable consumers. This would be an unfair distribution of costs on those consumers least able to manage their consumption and their exposure to costs. NEA is opposed to this recommendation in the Helm review.

What matters should the Government take in account in considering the framework for network regulation, and its associated institutional framework?

NEA will not comment on the analysis and challenge in the review regarding the governance and future model of systems operators in the review. On the subject of whether there is an on-going need for price controls, we believe that the monopoly nature of these businesses, the oft reported

¹ For more information visit: www.nea.org.uk

outperformance against price control assumptions and the crucial role in a smart and flexible future argue for the retention of price review processes, even if framed differently.

The benefits of a clear incentive programme for companies extend beyond basic customer service to the role of companies with a regional or local footprint in supporting vulnerable and fuel poor households and communities. We argue strongly that there is more that active regulation should achieve regarding the performance and obligations of monopoly firms toward the communities they serve, and from which they derive value.

What matters should the Government take into account in considering the longer term operation of the retail market?

The UK funds its low carbon transition by recovering 'policy' costs through consumer bills. This is widely accepted to be regressive given that households on lower incomes spend a higher proportion of that income on energy. Shifting recovery toward taxation would reduce the burden on the fuel poor. Clearly, this would only shift costs and the terms of reference for the review stipulated it should not impose further costs on the Exchequer, however Government cannot respond to a review of current and future energy costs without considering ways in which the cost burden on low incomes households can be lifted, ameliorated or a less regressive means of recovery established.

The review references proposals for more progressive recovery through a universal basic allocation of fixed costs, removing policy costs from an initial block of usage for vulnerable consumers and rising block tariffs. These all have merit and we urge government to consider how these proposals may deliver a fairer distribution of policy costs and work alongside the proposals for safeguard tariffs and broader price caps.

Options that would provide exemptions for households in fuel poverty in particular, are easier to justify than exemptions for 'industry'. However, personal circumstances and housing type do mean that certain low income households who have unavoidably high consumption, and may be worse off under rising block tariffs, would need to be protected.

In the medium or shorter term Government could do much to make the operation of the market more effective for fuel poor and low income households.

- Maximise data-sharing powers to improve identification and targeting of low income households at risk of fuel poverty for the provision of financial and non-financial assistance.
- All suppliers over 50,000 customers to deliver the Core Group rebate. Until then urge suppliers under the existing 250,000 threshold to apply rebates on a voluntary basis.
- Accept that switching is a poor proxy for consumer engagement and address the reasons why many low income or vulnerable households do not switch - digital exclusion, need to pay on receipt of a bill or by prepayment, debt and credit checks and aversion to risk of new or unknown suppliers.
- Ensure that pricing is fair and that consumer segmentation does not increase relative detriment in more flexible and dynamic markets that are expected to follow smart roll-out.

What matters should the Government take into account in considering the wider recommendations of the Review?

Heat decarbonisation will be important for years to come. Over 90% of today's homes will still be in use in 2050 and for those who struggle to heat their home, it is of fundamental importance.

Retrofitting many of these homes is important and it will be costly. There is a pressing need to join up heat and fuel poverty policy to ensure that both issues are tackled in parallel.

NEA's experience in delivering large scale innovation projects in fuel poor and vulnerable households convinces us that Government should explore how technology trials can be directed towards improving outcomes for such households whilst also reducing the costs and improving performance of the various technologies.

Energy efficiency must become a key national infrastructure priority with Government identifying the full social, economic, health and carbon benefits of such a priority. This crucial evidence should be used to support the strong case for central investment to help fund domestic energy efficiency programmes overall.

Energy efficiency based fuel poverty targets will help deliver the UK Government's Clean Growth objectives: a successful industrial strategy, small business growth in every region and carbon emissions reductions. Delivering these targets will also help improve local air quality and reduce health and social care costs. Currently however only 10% of fuel poor households meet the band C requirement in England and whilst progress is being made there will still be around 175,000 fuel poor households living in Band F and G properties in England by 2020.

National Energy Action
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