Action for Warm Homes

CONSULTATION RESPONSE

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NEA response to BEIS's "Consultation on a Green Gas Levy"

About National Energy Action (NEA)

NEA[1] works across England, Wales and Northern Ireland to ensure that everyone in the UK[2] can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives. NEA's work is also delivered in partnership with local and national government, Ofgem, industry and the third sector to deliver practical solutions to improve the quality of life for those living in cold homes.

Background to this response

Over the last five winters the number of excess winter deaths due to living in a cold home is estimated at approximately 10,000 per year[3]. In 2017/18, the number of excess winter deaths (EWDs) across England and Wales exceeded 50,000, the highest recorded for over 40 years[4]. While the causes of EWDs vary[5], we estimate one of the largest contributors to these needless deaths is vulnerable people, often struggling with existing ill-health, being unable to heat their homes adequately, if at all[6]. As well as an unacceptably high number of preventable winter deaths, millions more people are struggling significantly to afford to adequately heat and power their homes and are suffering with poor physical and mental health due to cold homes[7].The resulting impact on health services is acute; costing the NHS between £1.4bn and £2bn every year, in England alone[8] and creating huge needless strain on our stretched health and social care services.

Summary of our response

NEA continues to support the agenda to eliminate the UK's contribution to climate change by 2050 and appreciates that decarbonising gas a significant policy lever to meet this target. The Government is actively considering the way that we pay for our energy, through the Helm Cost of Energy Review[9], the upcoming Energy White Paper and the Treasury Net Zero Review[10].

While the White Paper has not yet been released, both the Cost of Energy Review, and the Net Zero Review have a focus on ensuring that fuel poor households do not continue to pay disproportionately towards of the cost of decarbonisation policies. The Cost of Energy Review recommends that *"The government should consider the allocation of the system costs and, in particular, the option of providing for a basic block of electricity capacity at a lower fixed cost to address fuel poverty."*, whilst the Net Zero

Review has an explicit objective to *"Identify mechanisms to create an equitable balance of contributions"*. NEA is concerned that the proposals regarding the recovery of the Green Gas Levy from consumers is not commensurate with this welcome focus or broader Government thinking and objectives regarding the issue of paying for net zero or the evident consensus amongst wider stakeholders about the importance of a 'fair' transition.

The impact of moving away from a progressive funding mechanism (the tax funded Renewable Heat Incentive) to the most regressive way of allocating costs for this new levy will be felt by fuel poor households through increased prices for gas. While for most, the impact is small, for some of the most vulnerable people in society, there is a significant impact. The impact assessment estimates that at its peak, the Green Gas Levy will contribute £6.90 to each gas bill. This is a substantial amount for a low income, fuel poor household that is struggling to pay the bills and NEA estimates that this is equivalent to two days' worth of heating[11], something that the many households that already ration their energy cannot readily afford.

The COVID-19 crisis has exacerbated the issue of energy affordability in the short term, reducing incomes and increasing energy usage. This has led to increased utility debt. In August, Citizens Advice estimated that 2.8 million UK adults had fallen behind on their energy bills.[12] Separate analysis from the Energy and Climate Intelligence Unit (ECIU) demonstrates that, over winter, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes.[13] This mix of increased energy debt before winter (when debt is usually lowest), and likely increased costs during winter (compared to a normal winter), implies that energy debt will continue to rise. This could take years to return to normal levels, as incomes continue to be squeezed. The Policy Institute at Kings College London[14] estimated that "3 in 10 have experienced a reduction in their income as a result of Coronavirus", and that "while 3 in 10 people have had to cut back on non-essential spending, 2 in 10 have had more money left at the end of the month".

NEA is also concerned that the upcoming carbon tax, which will replace our European carbon trading scheme, will put more pressure on low income, vulnerable households and we have we firmly believe that some of the receipts from the tax should help such households. The scale of revenue for the proposed UK ETS is vast, accruing the UK Government up to £27 billion by 2030. We have argued in our recent response to the BEIS consultation on carbon pricing[15] that that a fund should be created, alongside or instead of the proposed industrial energy efficiency fund, to improve the energy efficiency of fuel poor homes and reduce the financial impact that carbon pricing has on those that are least able to afford it. We have also argued that in addition to using the revenue from carbon taxes to help support low income and vulnerable energy consumers through the net zero transition, we also believe there is merit in considering whether this revenue would be well suited to funding schemes such as the "Green Gas Levy". This would be a significantly more progressive way of paying for this policy, and would cover the costs several times over.

If these proposals are not heeded in time for the introduction of the Green Gas Levy, NEA stresses the importance of recovering the costs of the policy in the most progressive manner. This requires a stipulation that suppliers should look to recover the costs on a unit basis. This could be achieved through working with Ofgem to ensure that the price cap methodology builds the added costs from the green gas levy into the variable cost, not the cost at nil consumption.

Key Recommendations

1. BEIS must consider alternative ways of paying for the Green Gas Levy, such as utilising the additional income that will arise from the new proposed carbon emissions tax.
2. If it is decided that there must be a new levy to pay for this policy, BEIS should:
    a. Work to identify more tiered options that would provide a fairer distribution of charges before making a decision based on the limited options put forward; and

b. Accelerate work to progress towards a volumetric cost recovery approach in order to limit the harm to the poorest households.

3. Any overspend of the scheme must be returned to the most financially vulnerable bill payers that will see the largest impacts from the scheme. This could be done through supplementing the Warm Home Discount budget.

Our response to this consultation

Question 2 - Do you agree with our rationale for proposing that the Green Gas Levy be charged on a per meter per day basis, according to gas supplier meter points served? Yes/No. Please provide evidence to support your response.

No, NEA does not agree with the rationale for proposing that the levy be charged on a per meter per day basis. The three points made in the document are based solely around practical considerations. While this is important, there are other considerations to make. In Ofgem's Significant Code Review, the "Targeted Charging Review"[16], they consulted widely with industry and other stakeholders on the principles they would use to decide how to allocate network costs to users. This is analogous to BEIS' decision on allocating Green Gas Levy costs to consumers. After this consultation, Ofgem used three principles[17]: Reducing distortions; Fairness; and Proportionality and practical considerations. While it could be argued that this Green Gas Levy consultation accounts for reducing distortions and practicality, it does not adequately address fairness. Additionally, neither the recovery of the cost of the proposed mechanism, or the projects that it funds, have any economically progressive elements. Put simply, poorer households will end up paying disproportionately more for something that provides at the very most, the same direct benefit to them as it does to significantly richer households.

The main consideration with regards to fairness must be to reflect on the affordability of energy. This is an acute issue for millions of households who live in fuel poverty across Great Britain, manifesting itself in two main ways: self-rationing and, more severely, self-disconnection. Analysis from BEIS[18] suggests that fuel poor households use significantly less energy, compared to their theoretical need, than households that aren't fuel poor. The report found that *"rather than paying costs of heating – either made higher by lower energy efficient homes, or relatively higher by a lower income or competing child costs, many households may be choosing to under consume relative to the standards laid out on page 2, rather than pay to consume adequately. This is a trend pronounced mainly the lower the income, fuel poverty status and higher the energy inefficiency of a household.".* Put simply, for fuel poor households, energy is an elastic market, and the more it costs, the less of it will be used. This is especially an issue for gas, as it is mainly used for heating. Underheating homes has a significant impact on both morbidity and mortality. The scale of this is indicated above in the background to our response. Over the last five winters the number of excess winter deaths due to living in a cold home is estimated at approximately 10,000 per year, and cold homes result in increased medical needs costing the NHS between £1.4bn and £2bn every year, in England alone[19].

Self-disconnection[20] is an even more serious issue than self-rationing. Ofgem state that 14% of prepayment customers self-disconnect at least once a year. For the gas market, this equates to 476,000 households[21]. This has a profound impact on wellbeing, ranging from an increase in mental health issues, to an accentuation of the health issues attached to self-rationing and explained above.

While the proposed peak of £6.90 per meter per year does not seem like a significant added cost for most people, it will undoubtedly result in millions of people using less energy and hundreds of thousands that self-disconnect each year it will mean having to wait longer before being able to top up their energy, as the standing charges continue to accrue even with no credit on the meter. NEA estimates that this is

equivalent to two days' worth of heating[22], something that the many households that already ration their energy cannot readily afford.

NEA cannot be fully satisfied with the rationale until these things have been fully considered. They impact on millions of households. It simply cannot be considered fair that a large factory with gas demand several orders of magnitude larger than domestic consumers will be paying the same amount towards the levy as those households that struggle to afford their energy bills.

Question 5 - What are your views on how underspend should be managed? Please provide evidence to support your response.

NEA agrees with the consultation proposal that any underspend should be given back to customers. We do not, however, think that this money should be re-allocated to all customers, but targeted to help the most financially vulnerable households to afford their energy bills. The Warm Home Discount provides a framework for doing this. Any underspend could go into the Warm Home Discount required spending envelope, which would in turn result in either additional rebates for vulnerable energy consumers, or additional funding for "Industry Initiatives", projects that help energy customers that are most in need of financial assistance. NEA would be happy to discuss this proposal in more detail in a bilateral meeting.

Question 12 - Do you agree with our proposal for a flat rate charge for the levy, without tiering, as part of a per meter point levy design? Yes/No. Please provide evidence to support your response.

No, we do not agree with this proposal. As stated above NEA cannot be fully satisfied with the rationale until these the implications for a flat rate charge have been fully considered. There are negative impacts for millions of households. It simply cannot be considered fair that a large factory with gas demand several orders of magnitude larger than domestic consumers will be paying the same amount towards the levy as those households that struggle to afford their energy bills. As noted above and below, if the decision is made that the policy will not be paid for out of taxation, it should at least be based on consumption through a volumetric approach.

Furthermore, information in this consultation's impact assessment shows that the difference in average household bills between a per meter approach with and without tiers would be a difference of 10p if option 1b is used and 40p if option 1c is used in the peak in 2028 (difference between option 1a and 1b/1c).

For both tiered options in the impact assessment (1b and 1c) the average annual household bill at the peak year pays a higher percentage increase than other users, for example medium and large businesses.

In option 1b, the average household experiences a 1% increase in annual bill whilst large business users only experience a less than 0.5% increase. There are no options larger users pay the higher percentage increase in bills as opposed to households. If this analysis were to be competed, there may be higher cost savings from using a tiered approach, and this could lead to a fairer outcome.

BEIS should work to identify more tiered options that would provide a fairer distribution of charges before making a decision based on the limited options put forward.

Question 13 - What are your views on the impact that the Green Gas Levy could have on billpayers? Please provide evidence to support your response.

The current context for the affordability of energy for GB households is stark. The COVID-19 pandemic has led to the single biggest hit on our economy for 41 years[23]. It is expected that the affordability of

energy will become much harder for many more people over the coming years. The impact from coronavirus on household situations has been significant. There is a reasonable chance that the impact of this on consumers will last for the lifetime of this policy, and most definitely for the period where a flat rate is proposed.

The net impact of soaring household energy use and pinched incomes is inevitably an upward spiral in the unaffordability of energy. In August, Citizens Advice estimated that 2.8 million UK adults had fallen behind on their energy bills.[24] In June, Uswitch estimated that almost 14 million households with traditional meters were facing unexpected rises in their energy bills as energy suppliers retrospectively increase direct debits to claw back the cost of increased lockdown energy use. Uswitch also noted that vulnerable households who struggle to read their own meters could be susceptible to the biggest shock, with a jump in monthly payments of £25 per month by September.[25] Separate analysis from the Energy and Climate Intelligence Unit (ECIU) demonstrates that, over winter, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes.[26] This mix of increased energy debt before winter (when debt is usually lowest), and likely increased costs during winter (compared to a normal winter), implies that energy debt will continue to rise. This could take years to return to normal levels, as incomes continue to be squeezed. The Policy Institute at Kings College London[27] estimated that "3 in 10 have experienced a reduction in their income as a result of Coronavirus", and that "while 3 in 10 people have had to cut back on non-essential spending, 2 in 10 have had more money left at the end of the month".

As stated above, in our answer to question 2, millions of households already ration their energy, whilst hundreds of thousands self-disconnect. While the proposed peak of £6.90 per meter per year does not seem like a significant added cost for most people, it will undoubtedly result in millions of people using less energy and hundreds of thousands that self-disconnect each year it will mean having to wait longer before being able to top up their energy, as the standing charges continue to accrue even with no credit on the meter.

Question 24 – Do you agree with more closely aligning levy costs with consumption through a volumetric approach, as the scheme develops? Yes/No. Please provide evidence to support your response.

NEA strongly agrees that a volumetric approach is preferable and urges BEIS to accelerate the move towards this approach as soon as is possible.

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

[2] NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

[3] Over the last 5 years, there has been an average of 35,562 excess winter deaths. NEA estimates that approximately 30% of these are attributable to the impact cold homes have on those with respiratory and cardio-vascular diseases and the impact cold has on increasing trips and falls and in a small number of cases, direct hyperthermia. This is in line with estimates made by the world health organisation - http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf

[4] Office for National Statistics, November 2018, see: https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/excesswintermortalityinenglandandwales/2017to2018provisionaland2016to2017final

[5] The main causes of excess winter deaths are attributable to respiratory and cardio-vascular diseases which are badly exacerbated by cold conditions. Other causes may include influenza, trips and falls or in a small number of cases, hyperthermia. Public Health England cites studies that 10% of excess winter deaths are directly attributable to fuel poverty and that a fifth of EWDs are attributable to the coldest quarter of homes. This was regarded as a 'conservative' estimate as separately the World Health Organisation stated that 30% is the best estimated share – based on European evidence – of EWDs that can be considered attributable to cold housing conditions. This suggests that poor energy performance – manifested in homes that are hard and/or expensive to heat, thereby exacerbating the risks of respiratory and circulatory problems and poor mental health – is a significant contributory factor to the number of EWDs in the UK.

[6] On average, this results in over 10,000 British citizens dying needlessly due to cold homes each year. For more information see UK Fuel Poverty Monitor Report 2018, NEA and EAS, page 3. See: http://www.nea.org.uk/wp-content/uploads/2018/09/UK-FPM-2018-FINAL-VERSION.pdf.

[7] According to a recent NEA call for evidence many fuel poor households are adopting unsafe strategies to try and survive winter. This includes the regular use of older dangerous or un-serviced heating appliances is commonplace, despite being potentially fatal or leading to heightened risks for nearby neighbours as a result of carbon monoxide poisoning or in extreme situations, fires, and explosions. Many more people are going to bed early to keep warm and using candles to save on electricity. People struggling to heat their homes are also spending their days in heated spaces such as

libraries, cafes or even A&E to avoid the cold, damp and unhealthy homes continue to cause shocking levels of unnecessary hardship and premature mortality.

[8] In 2016 BRE released its revised Cost of Poor Housing (COPH) report, which estimated the cost of poor housing to the NHS based on EHS and NHS treatment costs from 2011 and includes treatment and care costs beyond the first year. It also includes additional societal costs including the impact on educational and employment attainment. Finally, it provides information in terms of QALYs (Quality adjusted life years) as well as cost benefits, and to compare with other health impacts. The report estimates that the overall cost of poor housing is £2bn, with up to 40% of the total cost to society of treating HHSRS Category 1 hazards falling on the NHS. Overall, the cost to the NHS from injuries and illness directly attributed to sub-standard homes was estimated at £1.4billion, and the total costs to society as £18.6 billion.

[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/654902/Cost_of_Energy_Review.pdf

[10] https://www.gov.uk/government/publications/net-zero-review-terms-of-reference/hm-treasurys-review-into-funding-the-transition-to-a-net-zero-greenhouse-gas-economy-terms-of-reference

[11] The average UK home uses gas for central heating and spends about £550 each year on space heating alone (https://www.ovoenergy.com/guides/energy-guides/heating-costs-gas-vs-oil-vs-electric-storage-heaters.html#:~:text=The%20average%20UK%20home%20uses,about%20%C2%A3900%20each%20year). Assuming that for this spending takes place solely in the winter half of the year (178 days), then this translates to approximately £3/day to heat a home during winter on average.

[12] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/excess-debts-who-has-fallen-behind-on-their-household-bills-due-to-coronavirus/

[13] https://eciu.net/analysis/reports/2020/lockdown-in-leaky-homes

[14] The Report "Getting used to life under lockdown? Coronavirus in the UK" explored the impacts of coronavirus through a survey of 2,254 UK residents aged 16-75 by King's College London in partnership with Ipsos MORI, conducted on 20-22 May. For the full report, please visit https://www.kcl.ac.uk/policy-institute/assets/getting-used-to-life-under-lockdown.pdf

[15] https://www.nea.org.uk/wp-content/uploads/2020/10/NEA-Response-to-HMT-Consultation-Carbon-Emissions-Tax_Final_2.pdf

[16] https://www.ofgem.gov.uk/electricity/transmission-networks/charging/targeted-charging-review-significant-code-review

[17] https://www.ofgem.gov.uk/system/files/docs/2017/08/tcr_scr_launch_letter.pdf

[18] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/789775/Comparison_of_theoretical_energy_consumption_with_actual_usage.pdf

[19] In 2016 BRE released its revised Cost of Poor Housing (COPH) report, which estimated the cost of poor housing to the NHS based on EHS and NHS treatment costs from 2011 and includes treatment and care costs beyond the first year. It also includes additional societal costs including the impact on educational and employment attainment. Finally, it provides information in terms of QALYs (Quality adjusted life years) as well as cost benefits, and to compare with other health impacts. The report estimates that the overall cost of poor housing is £2bn, with up to 40% of the total cost to society of treating HHSRS Category 1 hazards falling on the NHS. Overall, the cost to the NHS from injuries and illness directly attributed to sub-standard homes was estimated at £1.4billion, and the total costs to society as £18.6 billion.

[20] Ofgem defines self-disconnection as the scenario where PPM customers experience an interruption to their electricity and/or gas supply because of a lack of credit on the meter.

[21] Figures from the Ofgem Impact assessment for their decision regarding new protections for prepayment customers. https://www.ofgem.gov.uk/system/files/docs/2020/10/self-disconnection_and_self-rationing_final_impact_assessment.pdf

[22] The average UK home uses gas for central heating and spends about £550 each year on space heating alone (https://www.ovoenergy.com/guides/energy-guides/heating-costs-gas-vs-oil-vs-electric-storage-heaters.html#:~:text=The%20average%20UK%20home%20uses,about%20%C2%A3900%20each%20year). Assuming that for this spending takes place solely in the winter half of the year (178 days), then this translates to approximately £3/day to heat a home during winter on average.

[23] On 30th June 2020, the BBC reported that the impacts of coronavirus had caused the worst contraction of the UK economy in 41 years. For the article, see https://www.bbc.co.uk/news/business-53231851

[24] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/excess-debts-who-has-fallen-behind-on-their-household-bills-due-to-coronavirus/

[25] https://www.uswitch.com/media-centre/2020/06/14-million-homes-face-288-million-bill-shock-unread-meters-hide-rise-lockdown-power-use/

[26] https://eciu.net/analysis/reports/2020/lockdown-in-leaky-homes

[27] The Report "Getting used to life under lockdown? Coronavirus in the UK" explored the impacts of coronavirus through a survey of 2,254 UK residents aged 16-75 by King's College London in partnership with Ipsos MORI, conducted on 20-22 May. For the full report, please visit https://www.kcl.ac.uk/policy-institute/assets/getting-used-to-life-under-lockdown.pdf