



Our Energy Challenge – The DTI Energy Review

SUBMISSION FROM THE ENERGY RETAIL ASSOCIATION

The Energy Retail Association (ERA) welcomes the opportunity to respond to the Energy Review consultation. This is a particularly important consultation and the ERA has been fully engaged in it over the past few months. So being, the ERA would like to commend the Review Team for their professionalism, openness and engagement with key stakeholders throughout the consultation process. The Energy Review is an extremely wide-ranging document and covers a number of key areas. The ERA has sought not to cover all the aspects it could, but rather concentrate on two key policy areas – namely, fuel poverty and energy efficiency.

The ERA, formed in 2003, represents Britain's domestic electricity and gas suppliers in the domestic market in Great Britain. All the main energy suppliers, operating in the domestic market, in Great Britain are members of the association - British Gas, EDF Energy, npower, Powergen, Scottish Power, and Scottish and Southern Energy. Since its inception, the ERA has ultimately focused on finding ways to continually improve customers' experiences with their electricity and gas suppliers. This means that we lead on issues such as:

- Tackling fuel poverty and protecting vulnerable customers
- Delivering energy efficiency schemes
- Ensuring good sales practice
- Developing hassle-free systems for changing electricity or gas supplier
- Developing industry standards for customer billing
- Preventing debt and disconnections

1. Fuel Poverty

Introduction

Although the Government has made steady and encouraging progress in the eradication of fuel poverty over the past few years it cannot be denied that its ambition to eliminate fuel poverty by 2016 in England and Scotland and by 2018 in Wales looks increasingly challenging. Its target of eliminating fuel poverty in vulnerable households by 2010 is equally doubtful.

The targets were set at a time when prices were low (and in some cases falling) and energy efficiency was considered to be the way to improve the poor quality housing stock. The existing fuel poverty strategies now need to be revised and resources need to be identified and properly targeted in response to a range of developments in the energy market.

The market volatility experienced in Britain is, in part, a consequence of other global events, such as the huge economic growth and energy use in China and India, the instability in the Gulf, the European interconnector and depleting reserves of North Sea gas. Therefore, the challenge for suppliers working with Government is to manage this period of uncertainty whilst preparing for a future that is open to various predictions and suppositions. This requires both short-term action to manage the current situation of rising energy prices and concerns over supply, but also innovative policies that can be integrated into a policy framework that works to the strengths of both Government and industry in the long-term.

In order to meet the challenge posed by fuel poverty it is imperative that Government tackle the short as well as long-term implications of fuel poverty and challenges itself to be bold, innovative and imaginative in the development of policies needed to eradicate it. It has become increasingly clear that a “one size fits all” approach does not adequately address the entrenched socio-economic problems faced by many of those suffering from fuel poverty. Factors such as benefits maximisation, future demographic shifts and the performance of dedicated Government fuel poverty programmes all need to be viewed holistically in order for a coordinated and target-driven framework to be established and executed.

The Government’s fuel poverty strategy to 2018 should engage the full range of government departments that have a role to play (e.g. DTI, DEFRA, DWP, DOH, ODPM and the Treasury) as well as the many agencies that also have a role to play in the eradication of fuel poverty. It should encompass and bring together the wealth of existing information to target those on low incomes, in poor quality housing and claiming benefits. In addition, the reality of whether such programmes can be more appropriately delivered by third party organisations with the expertise to provide front line support services and engage on a community and local level should also be explored.

For its part the industry is committed to supporting vulnerable customers and will continue to invest in the range of social welfare programmes and other initiatives it has developed. In the next three years some £700m of investment will be targeted on these schemes by the energy retail sector. However, the fact cannot be ignored that the root of fuel poverty is, at its most simplistic, poverty, and although many stakeholders and the industry have a legitimate role to play, it is ultimately Government who is responsible for developing, delivering and sustaining a financially inclusive, socially conscious society which provides help for those who require it the most.

Key policy drivers

1.1
The Government should take a clear lead in identifying and targeting the fuel poor
There is no doubt that fuel poverty is a complex, multi-faceted and cross cutting policy issue. Given their position as socially responsible businesses, energy suppliers undertake (both collectively and individually) a wide range of comprehensive social

initiatives which help to tackle fuel poverty, for example, the recently-established and innovative Home Heat Helpline which assists consumers who need support in managing their bills. However, as the ERA has stressed before, such industry initiatives are carried out on a voluntary basis in an effort to contribute to the process of eradicating fuel poverty. Under competition, there has been a recognisable policy shift in regards to the boundaries of responsibility for tackling fuel poverty, on the part of government and the obligations it has placed on industry. Whilst suppliers readily play an important role in addressing fuel poverty, it should be stressed that people in fuel poverty often have multiple social welfare and deprivation issues and it is the government's responsibility to tackle these as part of its wider social and financial inclusion and welfare agendas.

The ERA welcomed the Government announcement for an additional £140 million to fund Warm Front and the Social Exclusion Unit's programme to ensure vulnerable people can access and benefit from the range of public services available to help them. However, reports from the Public Accounts Committee (March 2005), the Audit Commission (November 2005) have been critical of the effectiveness of the Government's fuel poverty measures. The reports suggested that while the DEFRA 'Warm Front' scheme in England has spent considerable funds, it has been largely unsuccessful in targeting the fuel poor living in energy inefficient homes. This issue needs urgent attention by Government.

By contrast, in Scotland, the Government's Central Heating Programme and Warm Deal have had far greater success, the former having removed around 70% of households from fuel poverty, achieved through a non-means tested target audience of all pensioners without central heating. The ERA believes that widening the eligibility criteria for Warm Front and ensuring it is more responsive to the needs of its target audience would have a positive impact on fuel poverty targets.

Ofgem's recent MORI survey of vulnerable customers revealed that, despite the level of available support, many eligible customers are simply unaware of the help available to them. The research confirmed the perception of many that tackling this lack of awareness, and being able to identify those most in need, is crucial to meeting the Government's 2010 fuel poverty target. Identifying and targeting the fuel poor remains a key challenge and requires a truly 'joined-up' approach by Government that delivers all social support mechanisms simultaneously, tailored to suit the needs of the household at the time of identification.

State benefits are the only 'passport' to many of the schemes, but many people who are fuel poor are not receiving the range of benefits which would make them eligible for help. Information regarding overall benefits take-up would also enable a picture of a fuel poor household to be developed, thereby enabling Government and the energy suppliers to better target the assistance where it is needed most. It is important, therefore, to understand the sources of public information used by the fuel poor and tap into those channels. Whilst some households in fuel poverty are elderly, have control over their finances and may be reluctant to present themselves as 'fuel poor', others may have multiple debt and Government, with the support of industry, needs to join-up the services that offer assistance to address all of the problems faced by vulnerable households. The Government has access to information about those individuals that could be used to target help and advice (e.g. through the benefits system) and steps should be taken to ensure that such data is pooled and shared with energy suppliers to enable a multi-agency approach.

In supporting Government in eliminating fuel poverty, the main contribution that energy companies can make alongside such social welfare projects is to continue attempts to stabilise fuel prices wherever possible (albeit within the constraints of a competitive wholesale market), to promote energy efficiency improvements, and to ensure that there is flexibility in a competitive market to enable vulnerable customers to benefit from competition and the targeted services and tariffs available to them.

The Energy Review provides a significant opportunity for Government to develop a comprehensive approach which maximises the use of current resources, clearly sets out the Government's ongoing commitment to addressing fuel poverty in the longer term and capitalises upon the efforts of the energy suppliers through the need to work in partnership with industry.

The ERA would therefore argue strongly that the government must take the primary responsibility for eradicating fuel poverty. This necessitates increased government investment in improvements to the existing housing stock, in the private-rented sector as well as support to the owner-occupied sector and the need to eradicate poor or unfit dwellings. In particular, government needs to drive further improvements to the energy efficiency standards of the housing stock. Such improvements will also deliver significant environmental benefits including CO2 emissions in line with internationally agreed objectives

Rising energy prices do have an impact on fuel poverty and suppliers are acutely aware of the effect that increased fuel prices can have on their most vulnerable customers. However, whilst energy prices may have this effect on fuel poverty numbers, this also demonstrates the dynamic nature of this issue and the fragility of government's approach to addressing it. For example, if a £60 increase in an energy bill is sufficient to place a household back into fuel poverty, then this requires the provision of the right financial support – hence the importance of benefits' entitlement checks for example.

Suppliers have responded positively to the introduction of energy efficiency targets and made a clear link to supporting Government's fuel poverty targets. However, both goals could be more effectively achieved if the policy mechanisms differentiated between them clearly. If the two policy goals were separated, the ERA believes that it would be appropriate for the suppliers' role to focus on fuel efficiency and the Government's role to focus on the 'poverty' aspects of this issue, since fuel poverty is as much a social and political issue as it is an energy issue.

Policy considerations

- **The Government should better target the fuel poor and provide adequate resources for measures that tackle fuel poverty**
- **The Government needs to better promote the services available and be more imaginative and results-driven in their approach to benefits' maximisation**
- **The Government needs to reassess the Warm Front model in light of its**

obvious failings and work with stakeholders and the industry to establish a more responsive and VFM tool for tackling fuel poverty and energy efficiency

1.2

Annual reporting to Government on work undertaken to eradicate fuel poverty

Local authorities themselves are uniquely placed, through the Community Planning process, and their own information collection, to co-ordinate and consider detailed information about local conditions, such as local economy, local housing needs, income issues and local educational standards which would impact on current and future poverty, including fuel poverty. It is a consistent criticism of the current fuel poverty provisions that the approach is very much a top-down model with poor targeting and a lack of coordination at not only a regional level, but also local and community level.

Local Authorities are already responsible for setting and reporting against targets for increasing energy efficiency under the Home Energy Conservation Act 1995 (HECA) and one option going forward could be that this could be twinned with a mechanism for local authorities to prepare and deliver strategies and report on measures they have implemented to combat fuel poverty. This would have the benefit of creating, for the first time: a nationwide assessment of the fuel poverty situation; a system whereby best practice could be replicated; uniquely created schemes could be developed to tackle particular local issues; and the problem of targeting would be better addressed and information would be more accessible to the fuel poor.

The system could also inform the decision-making process at central government level. Local Area Agreements are also likely to be instrumental in driving forward fuel poverty issues at a local level which could facilitate policy and service delivery integration.

Policy considerations

- **The Government should explore opportunities for local authorities in England and Wales to report on the levels of fuel poverty in their locality**
- **The Government should establish a model of best practice, alongside suppliers, that takes into account local and regional variations in areas such as housing stock, demographics and historical issues**

1.3

Redesign the Fuel Direct model

The ERA believes there is potential to maximise the impact of Fuel Direct in a number of ways, particularly as DWP is aware that such households are likely to be poor, and thus potentially fuel poor. The current qualifying criteria for Fuel Direct are Income Support and the Job Seekers Allowance. We propose, for example, that the qualifying criteria should be relaxed, thereby widening Fuel Direct to include other benefits such as Pension Credit, and other non means-tested benefits.

In addition, we would also urge Government to consider the provision of a range of new services under Fuel Direct, to expand the scheme by offering EEC services, benefits entitlement checks and assistance when coming off Fuel Direct to help households avoid further fuel debt and provide information on tariffs and energy advice. In addition, consideration should be given by government and industry to the provision of discounted fuel where payment is made via Fuel Direct. Lastly, the use of direct debit arrangements under which the DWP would identify fuel poor households, would enable suppliers to then offer competitive rates to these customers.

In April 2006, the IPPR, in a study on domestic energy prices, said the Government could bulk-buy energy for pensioners and benefit claimants currently using prepay meters. This would mean deducting the charges direct from their Income Support or Pension Credit benefit payment. The IPPR said the plan could save these customers £60 a year each – up to 15% of the average annual bill. It also reported that a similar scheme in Ohio, America, helped 60,000 low-income customers reduce their monthly gas bills by as much as 18 per cent. Although £60 would not be adequate to lift the majority of people out of fuel poverty the ERA does believe the model requires further consideration by Government, albeit with modifications.

Policy considerations

- **The Government should expand the Fuel Direct scheme in order for it to provide a greater degree of support to those most in need**
- **Greater synergies and thus, deliverables, could be established if the Government worked more closely with suppliers in the administration of Fuel Direct**
- **DWP should review their unwillingness to reform Fuel Direct and the Government should question whether financial inclusion, in this area, outweighs the benefits of social inclusion**

1.4

The Winter Fuel Voucher Scheme

The Government's annual Winter Fuel Payments is an important contribution to

alleviating the problems associated with fuel poverty in enabling elderly and vulnerable households to pay their fuel bills. The present scheme gives a cash payment of £200 for winter fuel for households with people over the age of 60, or £300 where people are over 80.

Although Government has previously dismissed the Energy Saving Trust's concept of a winter fuel voucher linked to energy efficiency measures as being too difficult to administer, the ERA believes the notion of a simple Winter Fuel Voucher Scheme to replace the existing generic payments warrants further consideration. A similar scheme already operates in Ireland with a weekly allowance payable to eligible persons, by way of vouchers which may be used to purchase any type of fuel or to pay gas or electricity bills, thus providing certainty in terms of how the money is spent.

An alternative would be for Government to make these payments directly to fuel poor households' energy suppliers. In both cases, the merit of a voucher as opposed to a one-off cash payment is that it would ensure that payments are targeted precisely at the problem they are designed to address.

Policy considerations

- **The Government should reconsider whether a 'blanket' winter fuel payment is the most effective way of assisting those most in need with their energy bills during the winter**
- **Whether the Government and suppliers should work on a joint targeted initiative in order to deliver the shared goal of enabling elderly or vulnerable households to receive dedicated help at a time when energy bills are at their highest**

1.5

Strengthened co-ordination between Government departments tasked with fuel poverty policy

The ERA believes it is essential that a cross-departmental framework is established across Government to ensure policies on key fuel poverty issues including health, wider poverty, the social security system, housing and regeneration are better coordinated and measured against key local and national indicators.

The present system, although providing some encouraging results, is ad hoc in nature and departmentally-driven, rather than being coordinated, holistic and aligned to any national strategy.

In recognising the cross-cutting nature of the fuel poverty issue, this implies greater commitment from a range of Government departments including DWP, DoH and ODPM and the need to establish dedicated fuel poverty targets against these bodies. Fuel poverty should be a shared responsibility between DTI (energy industry), DEFRA (energy efficiency), DWP (social welfare), DoH (health), ODPM (housing conditions), DfEE (education), Scottish Executive and Welsh Assembly. Significantly, dedicated fuel

poverty targets should also be set against these bodies and if not already, there should be a Public Service Agreement priority for all those named above.

A key component of the new framework would be that departments would work in consultation with suppliers, stakeholders, charities, local authorities and FPAG to identify key areas of action where a joint approach would deliver not only better results, but also a mechanism of best practice. A resource-driven framework replacing the existing fragmented one would also have the benefit of importing and exporting best practice from individual departments into a holistic framework better equipped to target resources where they are required the most.

As a further policy option, we propose that HM Treasury requires these departments to ring-fence an allotted sum to be used in cross-cutting fuel poverty initiatives. This would enable all departments to have a stake in fuel poverty policy formulation/initiatives and increase the level of coordination. This could, in turn, lay the foundations for innovative new ways of delivery and a more streamlined delivery process. For example, this might mean a stronger role for others such as local authorities (as noted above), house builders and primary care trusts.

Policy considerations

- **The Government should explore the possibility of ring-fencing specific funds to combat fuel poverty**
- **Cross-departmental working on fuel poverty should be better formalised and more accountable**
- **Targets should be challenging and the key responsibility of all Government departments generally and not just the current one or two departments in order for fuel poverty to be placed higher up on the Government's policy agenda**

1.6

The Government should undertake to identify all fuel poor households and provide benefit entitlement checks as a priority

One of the most effective ways of removing energy customers from fuel poverty is to increase their household income. Given our recommendation above that Government take a clear lead in the fight against fuel poverty, the industry would argue that, by implication, it is the primary responsibility of Government to identify the full extent of fuel poor households in this country. Whilst we are only too aware of the challenges associated with reaching the 'hard to reach', we believe Government is best placed (through the welfare system) to undertake the necessary analyses to identify such households. Moreover, once identified, Government should take responsibility for undertaking a benefits 'health check' with these households as a matter of priority.

It is important to understand where vulnerable customers currently get public information and tap into those channels. Whilst some households in fuel poverty are elderly, have control over their finances and may be reluctant to present themselves as 'fuel poor',

others may have multiple debt and Government, with the support of industry, needs to join-up the services that offer assistance to address all of the problems faced by vulnerable households. The Government has access to information about those people that could be used to target help and advice.

The industry is increasingly undertaking benefits health checks (or benefits' entitlements checks) as part of its CSR activities aimed at assisting our vulnerable customers. Such voluntary, added-value services effectively assist those energy customers in receipt of (or eligible for) state benefits and ensure that they are aware of the full range of benefits to which they are entitled. All of the ERA's members undertake such checks, either in-house or refer customers to a 3rd party (e.g. Eaga) via Freephone numbers.

Recent research of vulnerable customers revealed that, despite the level of available support, many eligible customers are simply unaware of the help available to them. The research confirms the perception of many that tackling this lack of awareness, and being able to identify those most in need, is crucial to meeting the Government's 2010 target.

Ofgem (2005) research found that of those who went through benefit health checks provided by suppliers, 76% went on to claim benefits. British Gas (2005) revealed that since 2003, the company in partnership with Help the Aged had ensured that £4.8 million has been claimed through its 'here to HELP' programme and the identification of over £22m of unclaimed benefit. BGT estimated that in 2005, its vulnerable customers were failing to claim benefits of, on average, £1,260 per year. Part of the problem is that such people are often suspicious of energy companies' offers of help and advice. They are more likely to trust their doctor, health visitor or social worker, with whom they have a closer relationship.

It is therefore essential that, whilst the industry continues to maintain its programme of voluntary social responsibility initiatives, the Government should act as the primary conduit in the identification and provision of assistance to those households in fuel poverty.

Policy considerations

- **The Government should explore a range of options in targeting and assisting those households most in need. These should include:**
 - **Targeting energy inefficient households in the private sector**
 - **Recognising the link between fuel poor households and health**
 - **Ensuring local authority services are correlated with central government programmes**

- **The Government, in conjunction with other agencies, charities and the industry, should establish more innovative approaches to identify, inform and assist the 'hard to reach'**

1.7

A VAT Exemption for Fuel Poor Households

The industry believes that the Government's target for reducing fuel poverty can be assisted through removing the current VAT levy of 5% on the domestic energy bills of those households identified as being in fuel poverty. The VAT exemption would apply to those customers who qualified for a relevant 'passport' benefit. The identification process could be undertaken as part of our recommendation (above) that the Government should carry out benefit entitlement checks as a matter of priority.

Policy consideration

- **The Government should consider this proposal as it would benefit only those most in need**
- **The scheme would have mutual benefit to the Government and to suppliers as it would provide hitherto unknown and uncollected data**

1.8

Changes to EEC Priority Split

Although the ERA do not think that EEC and fuel poverty targets should be linked the ERA recommend that the Government explore the option of amending the non-priority/priority split from EEC2 to 70/30 to free spend, which could be recycled to the fuel poor. This would mean that the recycled funds would be targeted to the fuel poor in addition to 25% of the revised priority activity spend reaching the fuel poor, equating to some 390,000 households. It should be stressed that this would not mean any decrease in the spend on the priority group – rather it would better target funds and activity to the fuel poor.

In the current EEC programme the priority group accounts for 35% of the total population, but incurs 65% of total expenditure. This balance could be redressed by adjusting the non-priority group/priority group ratio to 70:30. However it should be recognised that the priority group is not the best proxy for fuel poor households.

The stated intention of Government is that the emphasis of EEC will change from an energy efficiency tool to a carbon emission reduction tool. It is therefore vital that this new approach is coupled with a realisation that delivering fuel poverty alleviation tools through EEC is neither the most effective or efficient model for the desired aims of Government.

Suppliers have long argued that the "twin track" approach of EEC may not be the best way of fulfilling both social and environmental approaches - dedicated resources need to be targeted to dedicated problems.

If the priority element was given a different emphasis than at present, it would enable suppliers and delivery agents to have far more flexibility in the type of initiatives and programmes they could deliver to the priority group. This is not to say that a new framework of fuel poverty targets should be established – rather, that innovation should be rewarded and the schemes already available from suppliers should be used as a

foundation for more output-driven and targeted programmes aimed at the priority element of EEC.

New schemes, developed after consultation between suppliers, government and key stakeholders, could also maximise the delivery options available and provide a range of measures for the priority group.

Policy considerations

- **For it to work most effectively, EEC needs to evolve from its present dual-focus into a wholly carbon emission reduction tool**
- **Assisting the priority group within EEC is better done by concentrating resources on dedicated programmes that incorporate best practice in that particular area and not a 'one size fits all' policy framework**
- **An example of how this could be achieved can be found in section 1.9 (below)**

1.9

A Private Sector Single Scheme

The ERA believes that one option for Government could be to create a single scheme for tackling fuel poverty in the private sector focused on households in receipt of a qualifying benefit.

Energy suppliers are not delivery agents of social welfare or Government agencies. Therefore, it could be argued then that frontline delivery of welfare support should be undertaken by those most qualified in the relevant fields including health, housing and social services. Suppliers could develop and fund a scheme, such as the Health, Housing and Safety Rating Scheme, that assisted Government in identifying households in fuel poverty. Alternatively an industry funded scheme that linked Warm Front with the social element of EEC could be used to channel funds into fuel poor homes.

This would allow grass roots level engagement with fuel poor customers by qualified frontline staff. This strategy is supported by Help the Aged's report to the Energy Minister and aligns with energywatch's pilot scheme in North Yorkshire.

Policy considerations

- **This represents a dedicated fuel poverty policy instrument that has the dual benefits of playing to the strengths of the current system as well delivering tangible improvements to the grass roots delivery of services to an identified group**
- **The Government should ascertain the results of the work already undertaken in this field and, together with suppliers and the key agencies**

on the ground, decide whether a larger pilot is warranted.

1.10

Frontloading Capital Investment to Improve the Housing Stock

This scheme would involve frontloading significant capital for tackling the UK housing stock with the interest payments being guaranteed through existing FP funding. Furthermore, it should include contributions from the Government, construction industry and elements of the upstream energy sector with local authorities and housing programmes designated as the main delivery agents.

Following the example of the Chancellor's International Financing Facility and the widespread use of PFI and Public Private Partnerships, a financial mechanism could leverage significant capital to be invested in the UK housing stock. Private-Public Partnerships and Initiatives are already an established means of investment for local government/central government and therefore this model could be replicated to alleviate fuel poverty.

In essence, the proposal would mean diverting the priority group element of EEC funding to leverage up a significant capital programme for improving the housing stock. Suppliers would develop a scheme that allowed them to use their EEC spend to pay the interest on a much larger sum of capital. The risks would be lower and the rate of interest that capital was borrowed at could be reduced if suppliers agreed to create a pool of funding.

The size of the pool could be further increased by investment from other companies or diverting the Government's current Warm Front spend. In effect a "bank of funds" would be established, along the lines of the European Investment Bank which would rely on payments from the market players. For example, a fund of £1bn structured over 25 years could cost as little as £72m per annum or around £12m per company. With funds available of around £150m per annum the repayment period could be shorter or the fund size increased.

This radical proposal has the potential of making the biggest impact on improving the nation's housing stock and has the potential to be extended to other business sectors, such as the construction industry. By combining the resources of central and local government agencies, fuel poor households could be identified and the appropriate measures delivered through local authorities, primary care trusts, home improvement agencies or housing programmes.

The proposal is a new direction for private/public partnerships that presents a long term solution to the Government's fuel poverty concerns. However, it would require long term commitment by all parties and the Government would need to take responsibility for ensuring the funds were managed and used effectively.

Policy considerations

- **The Government would have to demonstrate the political will and long term vision for such a proposal to be established**
- **The scheme would provide a holistic and continuing benefit, not only to fuel poor households but to the national housing stock**
- **The upfront investment would have the additional benefit of providing knock on benefits for the economy**

2. Energy Efficiency

Introduction

In the recently published Climate Change Programme Review (CCPR) the Government described climate change as “the greatest long-term challenge facing the world”. In 2004, the domestic sector was responsible for about 27 per cent of total UK carbon dioxide emissions on an end user basis. The Government has said that current programmes coupled with implementing the measures in the CCPR will lead to domestic sector emissions roughly halving by 2010.

There is no doubt that the question of energy efficiency will increasingly become a key policy issue going forward. The ERA believes that a coordinated strategy embracing the following key policy drivers is essential for the Government to encourage a more energy efficient and sustainable society as well delivering practical solutions alongside policy drivers to ensure maximum take-up and challenge the present inaction and ambivalence in the marketplace. The Energy Saving Trust estimates that £1 in every £3 spent on heating is currently wasted by the 10 million British homes with insufficient insulation.

The ERA has recently called on the Government to challenge and change consumer behaviour in the light of the announcement that the UK was unlikely to meet its climate change targets for 2010.

The energy retail industry has already spent £800 million on energy efficiency measures over the last three years, which avoided 15.5 million tones of carbon emissions. Over the next three years, the sector is expecting to spend a further £1.2 billion on energy efficiency measures in households across the country.

Key policy drivers

2.1
The reform of the Energy Efficiency Commitment
The ERA has constantly voiced its concerns over the future of EEC and whether the

current framework provides the best value for money and delivers the most effective range of carbon saving measures.

It is clear that EEC1 was a qualified success given that the targets were exceeded and an estimated 0.4 MtC will have been saved by 2010. However, escalating costs continue to pose a significant risk for suppliers and the target for EEC2 requires a 2.4 times increase in the amount of cavity wall insulation activity compared to EEC1. This means that national suppliers need to insulate 1 in 5 homes of the remaining market. Suppliers have been increasingly reliant on the owner-occupied sector and less on the local authority/housing association properties that have been a source of work undertaken in the past.

The ERA therefore feels that the EEC framework has to be reformed, or replaced, in order to increase the flexibility for suppliers and increase the incentive to innovate. At the present time suppliers are relatively restricted by EEC in terms of the products they can deliver to the market taking into consideration unit costs, economies of scale and the uplift gained towards their targets. The ERA recommend that the Government should introduce additional incentive mechanisms (whether within or separate from EEC) to support the roll-out of new technologies (i.e. microgeneration or ground source heat pumps) which could include multiple EEC credits in the early years to subsidise the initial start-up expenditure. In addition, suppliers should be given the latitude to innovate and experiment (for the long term) in order to fully take advantage of technological advances and the evolving marketplace. However, this should be coupled with a realisation from Government that suppliers may not be able to demonstrate carbon savings in advance and that suppliers would require a lower carbon savings target. In this scenario, the Government might look at accruing carbon savings from other sectors, e.g. transport.

Legislative amendments currently being considered as part of the Climate Change and Sustainable Energy Bill would allow the Government more flexibility in extending the range of measures suppliers could use to meet their EEC obligations. The ERA welcome the progress that has been made in this particular area and hope any practical and market-based solutions can be implemented as quickly as possible and certainly before 2011.

Other options include exploring policy opportunities that would promote and encourage tariffs which incentivise end-users to reduce usage within the EEC framework. It is evident that new technologies are not breaking through in the current EEC framework, despite the innovation uplift. Incentive mechanisms are required to support technologies that have identified carbon reduction benefit. Ultimately, moving forward, it is essential that the dependency on traditional insulation is reduced. Additionally, the administration and process-driven mechanisms of EEC need to be simplified and made as efficient as possible.

In terms of reducing carbon emissions within a holistic context, steps should be taken by Government to place incentives and obligations on other industries (i.e. transport, electrical manufactures and building/housing developers) in order to promote and address their responsibility for energy consumption.

Policy considerations:

- **EEC needs to be replaced by a more efficient, responsive and deliverable framework in the short-medium term**
- **Going forward any new/remodeled EEC needs to recognise the importance of providing an innovative and flexible framework within which suppliers will be able to fully exploit technological advances**
- **Individuals and households need to play their part in reducing carbon emissions by being encouraged to become more energy efficient**

2.2

The split between energy efficiency and fuel poverty

The ERA strongly advocates a strategic split between fuel poverty and energy efficiency policy. It has become increasingly clear that distinct and separate policy mechanisms are required to fully address both of these complex issues effectively. There needs to be clearer differentiation between the policy mechanisms for energy efficiency and fuel poverty, which currently leads to confusion and fails to fully exploit the outputs from either. It may be appropriate for the industry role to focus on the 'fuel' and the Government's role to focus on the 'poverty', since fuel poverty is more a social and political issue than a purely energy one. Recent research has demonstrated that increases in energy efficiency will not necessarily lead to overall reductions in fuel poverty, since the fuel poor need to be able to use sufficient fuel to heat their homes to an adequate level. We would argue that the target definitions are somewhat misaligned and that a more suitable policy framework should be focused on the delivery of maximum energy (and thus carbon) savings rather than on those customers who use the least energy but require it the most. In addition there should be no double counting (i.e. separation should not result in a higher target) and no additional aggregate cost to suppliers.

The ERA also believes that the priority target within EEC could be better addressed if it was changed or removed from the EEC model and delivered within a new mechanism. This would result in a more flexible model which would allow the market to provide innovative and targeted solutions to the priority group i.e. variable tariffs within a framework driven by outputs and not inputs.

Nevertheless, the ERA does believe that an overall drive towards more energy efficient homes would contribute to tackling the factors underlying fuel poverty – but it is only a piece of the jigsaw in the eradication of fuel poverty.

Policy considerations:

- **There should be no additional aggregate cost to industry**
- **There should not be additional targets for the industry as the new model should promote flexibility, innovation and have a key policy focus on measuring the outputs delivered and not the inputs undertaken**
- **The aggregate amount spent by industry should be used within a ring-**

fenced policy instrument administered, by example, the DWP or another relevant department

2.3

Raising building and appliance standards

The ERA would like to see a more robust system of building regulations in place that incorporates challenging targets aimed at raising the energy standards in new build properties and raising standards within the existing housing stock. Although steady progress has been made in this area and new measures will improve the new build standards of energy efficiency by 40% and cut fuel bills by up to 40% for new homes built from 2006 compared to pre-April 2002 new build the ERA believes more can be achieved, especially within the existing housing stock. The ERA notes that the Government is currently undertaking a wide-ranging review to identify measures to improve the sustainability of the existing building stock and look forward to examining the recommendations that will be put to ministers in the coming months.

Although most household energy is used by gas heating equipment almost a quarter of all the electricity used in the UK is by way of domestic appliances and lighting systems. Appliances such as washing machines and TVs have achieved near universal take-up and new products such as larger/plasma TVs, computers etc pose new challenges – the number of TVs in the UK is estimated to reach 74 million by 2020, meaning that there will be more televisions than people to watch them. Not only are these appliances energy demanding but users tend to leave them on standby, thus consuming some £650m worth of electricity annually. The need for removing inefficient products from the market and encouraging the manufacture of more energy efficient products is now greater than ever. This has to be dovetailed with a consumer education campaign (maybe along the lines of the recycling/waste management campaign from a few years ago) which should challenge and encourage better consumer use of the energy-reliant products they use.

The ERA welcomed the announcement in the 2006 Budget that the EST, working in conjunction with major retailers, would introduce voluntary schemes in the retail sector that would encourage the purchase of more energy efficient alternatives in consumer electronics. However, the ERA believes that this should only be regarded as a first-step and more action is needed in this area to fully mitigate the technological revolution of the 21st century.

Policy considerations:

- **Particular attention has to be paid to the energy efficiency of the existing housing stock in order for standards to improve to a satisfactory level**
- **New build regulations have to continuously be challenged and strengthened in order for the UK to become an exemplar of best practice**
- **Manufacturers have to play their part in reducing carbon emissions and producing and marketing more energy efficient products**

2.4

An energy efficiency consumer awareness campaign

The ERA has recently called on government to redouble its efforts to change consumer behaviour in the light of the announcement that the UK is unlikely to meet its Climate Change targets. The energy retail industry has already spent £800 million on energy efficiency measures over the last three years, which avoided 15.5 million tones of carbon emissions. Over the next three years, the sector is expecting to spend a further £1.2 billion on energy efficiency measures in households across the country.

The ERA believes a dedicated research-based energy efficiency consumer awareness campaign to tackle the status quo is much overdue from Government. We welcomed the 2006 Budget announcement that funding would be provided for local authority-led publicity and incentive schemes and feel that such activity should be undertaken at a local level. In addition, we recommend that the Government work closer with the EST and other relevant stakeholders to fully address the ambivalence and ignorance surrounding domestic energy efficiency and its benefits and consequences.

Policy considerations:

- **Dedicated Government funds should be made available for the widespread promotion of energy efficiency information at a local level**
- **A renewed focus on personal responsibility and the development of schemes which reward reductions in household/domestic energy use**
- **Sustainable Energy Centres to be given a wider remit with a more robust focus on delivery**

2.5

Billing and Metering

The ERA believes that smart meters can be a key component in the evolution towards a more energy efficient society. The appropriate type of smart meter can give a household the information they require to monitor and reduce their energy use as well as benefiting from their supplier being able to read it remotely.

However, we are concerned that there seems to be a plethora of workstreams currently looking at the issue (i.e. Ofgem, energywatch) and a lack of understanding of what kind of smart metering technology is most appropriate for use in the UK. Relatively few smart meters have been installed in the UK and Ofgem's recent review of metering looked at the international experience of smart metering – the UK context is of course a different proposition in terms of market liberalisation, the culture of energy use, entrenched consumer behaviour and comparatively low energy prices. In addition, Ofgem said that there was little hard evidence that customers in Great Britain would reduce their energy use or shift their use away from peak periods in response to better information and energy prices that vary across the day.

Additional research-based evidence also seems to be rather thin on the ground and the question of cost and who actually foots the bill for the rollout and installation of smart meters also need addressing urgently.

Another key consideration is that the recently agreed Energy End-Use Efficiency and Energy Services Directive will require the installation of 'actual time of use' metering for all new connections and for replacement meters where "technically possible, financially reasonable and proportionate to the potential savings".

The ERA welcomed the 2006 Budget announcement that smart meters would be trailed and a £5m fund would be established and considers it as a positive step forward but would also like to see a coordinated approach from the Government in this important area and a clear policy direction in terms of the competition and regulation in the implementation of any smart metering framework. However, the practicalities have to be addressed and the most appropriate policy framework has to be developed for smart metering to fully realise its current potential.

Policy considerations:

- **Government needs to work closer with suppliers in order to fully understand the differing issues surrounding smart metering**
- **A firm decision on what measures need to be taken to secure carbon savings and other benefits from improved metering and billing**
- **Suppliers are currently embarking on a series of smart meter trails and would welcome a high-level working group comprising of representatives from DTI, DEFRA, ODPM, Ofgem and relevant suppliers to analyse the outcomes of the study and work towards a unified approach which would deliver a clear objective from Government and engage and sustain consumer interest**

2.6

Fiscal incentives

The Government should once again explore the opportunities presented by fiscal incentives in order to further boost customer interest in energy efficiency. Such measures could take the form of a reduction in stamp duty, or a reduction in council tax, for energy efficient housing (the British Gas/Braintree Council trial is a useful example). The ERA believes that the decision on these options should be taken at a regional and local level, within a national framework, in order to fully exploit the opportunities that currently exist.

The ERA agrees that a wholesale shift in public opinion must be achieved to ensure that individuals and households are encouraged, and in some cases, compelled to install energy efficiency measures. It should be acknowledged that fiscal measures in this area

could make a significant contribution to delivering the household portion of the Government's climate change targets. The Government should also work with suppliers to create the necessary conditions where customers are not only incentivised to purchase energy efficiency tools but suppliers are incentivised to sell energy efficiency solutions within market conditions.

Policy considerations:

- **The Government should look again at fiscal incentives and whether an appropriate model can be delivered**
- **Central and local government should work in conjunction on fiscal measures in order to develop a suitable position in terms of what is required and how it can be delivered**
- **The Government should once again explore schemes whereby households that take steps to cut their energy use are rewarded**

2.7

Trading arrangements

Another policy option that could be examined further is that of carbon trading and individual carbon allowances. Although the ERA considers this to be a long-term aspiration and the logistics and operating framework need a sizeable policy investment a trading system would have its benefits in the right policy environment. The future model of EEC (or its replacement) should be flexible enough to incorporate, and indeed promote, trading across the carbon-reducing policy measures suite. This may include white certificate trading and its variations as well as the exploration of individual carbon allowances and cap and trade arrangements.

Policy considerations:

- **The Government should further explore the potential for carbon trading schemes in the domestic sector within the EEC framework and as a stand alone policy measure**

2.8

Energy Services

Work on delivering a coherent and workable Energy Services policy has been ongoing and the ERA has played an important part of the process. It is reassuring that HMT have also played a key role in the development of a possible model – most notably hosting a summit earlier this year in order to explore the potential for energy services in the UK. There is a wide policy consensus that, the right model, delivered under the right circumstances, could have the potential to overcome some of the disincentives of installing energy efficiency measures in the domestic market. The increased knowledge of climate change and higher energy prices has provided an ideal market for developing

alternative ways to deliver energy.

The Energy Services Working Group (DTI) and the EST have commissioned research in this area which has shown the appetite for some common measures amongst households was at best mixed. However, the most interesting and motivating aspect of Energy Services seemed to be the energy efficiency audit – thus proving that although consumers were not interested in energy efficiency in an abstract sense, they did take an interest in issues relating to their own house.

Any Energy Services model has to be designed to be a comprehensive package of advice, installation and finance in order for it to appeal to certain people and help to alleviate concerns about cost and hassle where these may exist.

Policy considerations:

- **A further summit should be convened in order to establish the most practical way of proceeding**
- **The ERA intend to canvass the views of its members regarding what market mechanisms are required to fully exploit the benefits of an Energy services model and make it as workable and unbureaucratic as possible**
- **The 28-day rule has to be further considered in order to underpin any Energy Services model**