

Energy UK response to The National Assembly for Wales' Environment and Sustainability Committee's inquiry into Energy Efficiency and Fuel Poverty in Wales

Introduction

1. Energy UK is the trade association for the energy industry. We represent over 80 members made up of generators and gas and electricity suppliers of all kinds and sizes as well as other businesses operating in the energy industry. Together our members generate more than 90 per cent of the UK's total electricity output, supplying more than 26 million homes and investing in 2012 more than £11 billion in the British economy.
2. Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Welsh Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.
3. These high-level principles underpin Energy UK's response to the National Assembly for Wales' Environment and Sustainability Committee's inquiry into Energy Efficiency and Fuel Poverty in Wales. This is a high-level industry view; Energy UK's members may hold different views on particular issues.

Key points

4. Energy suppliers take their responsibilities towards assisting customers in or at risk of fuel poverty very seriously. Our members aim to help their most at-risk customers and provide them with the appropriate support to manage their energy use.
5. The factors contributing to fuel poverty are complex with low income and poor energy efficiency being key. Energy efficiency is, therefore, one of the most cost effective ways to reduce fuel poverty and carbon emissions.
6. To help ensure support is effectively targeted, it is important to have accurate information on the condition of the housing stock in Wales. Updating the Living in Wales Survey (last completed in 2008) should be considered. Consideration should also be given to reviewing the data that underpins the existing fuel poverty strategy whether a revised fuel poverty strategy is needed.
7. Simple processes are also required to identify households eligible for support. Data-matching for the Core Group of Warm Home Discount has proved to be simple and effective. Where there are policies aimed at a specific group, we would support and encourage further data sharing.
8. Energy UK welcomes the announcement by DECC to introduce additional incentives to encourage installation of energy efficiency measures. We also support the Green Deal as a method of

financing energy efficiency measures. It is, however, not the only method and other initiatives are needed where the Green Deal is not appropriate.

9. Energy suppliers are committed to achieving and delivering the targets Government has set for ECO. The industry is working with DECC and Ofgem to make sure the scheme helps as many people as possible in the most cost-effective way, as well as being easy to access and understand. As of May this year, and estimated 495,806 measures were approved by Ofgem under the scheme¹.
10. Energy UK commissioned the Centre for Sustainable Energy (CSE) to complete an independent evaluation of the first year of ECO. The report found that that ECO's very precise eligibility criteria and onerous reporting requirements have increased delivery costs, slowed down activity and hindered customer take-up. It recommended simplifying the reporting requirements to reduce scheme complexity and save costs.

Response to inquiry into Energy Efficiency and Fuel Poverty in Wales

To examine progress towards meeting the Welsh Government's statutory targets for eradicating fuel poverty in Wales by 2018.

11. The factors contributing to fuel poverty are complex and we recognise the challenges this presents in tackling fuel poverty. At the heart of the problem is the overlap between low income and the energy efficiency of a home. Improving the energy efficiency of the housing stock in Wales is, therefore, key in helping to support those most at risk of fuel poverty and we support both Arbed and Nest which are important delivery programmes.
12. To help direct resources more effectively, an accurate picture of the housing stock is essential and updating the Living in Wales Survey (last completed in 2008) should be considered. On the back of this, it would be also be sensible to consider reviewing the data that underpins the existing fuel poverty strategy to assess whether the fuel poverty strategy should be refreshed.

To consider the impact of the Welsh Government's existing energy efficiency programmes (Nest and Arbed) and UK Government initiatives such as the Green Deal.

13. Energy UK does not directly deliver energy efficiency programmes and therefore we feel those involved in delivery of both Nest and Arbed are better placed to provide comment. We do, however, have some remarks on the Green Deal scheme.
14. We are supportive of the Green Deal and the pay-as-you-save principle that sits behind it. We recognise that there are other ways in which households can finance home improvements, but that the Green Deal offers the opportunity to finance household energy efficiency improvements with no or little up-front cost.
15. Energy UK welcomes the launch of the Green Deal Home Improvement fund which will enables households to claim back up to £7,600 on energy efficiency measures. We believe additional incentives of this kind will help encourage installation of energy efficiency measures. It is, however, important to note that ECO and Green Deal incentive funding cannot be used in conjunction with one another. It has been suggested that for some packages of measures, a funding gap may still remain.
16. The Green Deal is one type of finance mechanism and may not be suitable for all households. Other initiatives, such as Government funded Arbed and Nest schemes are required in order to meet the energy efficiency challenge.

To review the implementation to date by the major energy suppliers of the Energy Company Obligation (ECO) and other measures to alleviate fuel poverty in Wales.

¹ <https://www.ofgem.gov.uk/ofgem-publications/87662/ecocomplianceupdate09may2014v1.pdf>

Energy Company Obligation

17. Ofgem published regular reports on the delivery of ECO. According to the latest update² issued on in May this year, 495,806 measures were approved by Ofgem.
18. Energy UK recently commissioned CSE to undertake an independent evaluation of the first year of ECO. During the course of this analysis, the Government announced changes to the ECO to reduce the cost impact of the social and environmental policies on energy bills. The final report³ was published earlier this month along with a findings paper. Key findings from the report included:
 - a. **Bilateral partnership are key:** We do recognise that the Green Deal is one type of finance mechanism and may not be suitable for all households. Other initiatives, such as Government funded schemes like Arbed and Nest are required in order to meet the energy efficiency challenge.
 - b. **Slow transition to ECO:** The transition to this scheme from CERT was initially slow due to full guidance being provided later than desired and delivery agents needing time to set up new systems to meet reporting requirements.
 - c. **Measures starting to be delivered at scale:** That despite slow initial progress, by the beginning of 2014, the ECO was delivering some measures at scale, particularly gas boilers and hard-to-treat cavity wall insulation.
 - d. **Complex design increases cost:** From interviews held with stakeholders across the supply chain, the report found that ECO's very precise eligibility criteria and onerous reporting requirements have increased delivery costs, slowed down activity and hindered customer take-up. The reports made a number of recommendations to simplify the programme which in turn would help reduce costs. These included:
 - i. **Deemed savings:** Moving to 'deemed savings' for each measure to reduce scheme complexity, simplify the proposition to customers and save costs. It would also promote greater certainty over the level of funding available at any given time, whilst removing any scoring inaccuracy.
 - ii. **Data-matching:** increase pre-verifying eligibility for the Home Heating Cost Reduction Obligation (HHCRO) via the Department of Work and Pensions.
 - iii. **Simplify reporting requirements:** Streamline reporting requirements which is being considered as part of a cross-industry working group.
19. The report also examined the distribution of ECO across the nations by income deprivation (the Welsh Index of Multiple Deprivation was used to assess delivery in Wales), fuel poverty and rurality. The report found that the households in areas where there is are high indices of multiple deprivation received proportionally more measures than households in areas of low indices of multiple deprivation.
20. With regards to rurality, the report found that measures were skewed to more urban areas. A lack of guidance on the geographical location of qualifying rural areas has contributed to lower level of delivery in rural areas. We do, however, expect that proposal to change the criteria for measures installed under the Carbon Saving Communities Obligation (CSCO) rural sub target will ensure a wider range of households would be eligible, benefiting more customers.

Other measures

21. **Warm Homes Discount:** The Warm Homes Discount (WHD) scheme mandates certain domestic energy suppliers to provide direct and indirect support arrangements to fuel poor customers, helping around two million vulnerable households annually. Over the four years of the scheme, from 2011, suppliers will have spent over £1.1 billion. For the last winter alone, over 1.2 million low income pensioners will have received a £135 discount on their electricity bill.

² *ibid*

³ The ECO: an evaluation of year 1, Centre for Sustainable Energy (2014) <http://www.energy-uk.org.uk/publication/finish/5-research-and-reports/1091-the-eco-an-evaluation-of-year-1-centre-for-sustainable-energy-report.html>

22. **Home Heat Helpline:** As part of meeting the Industry Initiatives component of WHD, Energy UK manages the Home Heat Helpline, a dedicated support service for customers concerned about their energy bills. It provides free, independent advice on everything from what rebates, grants and benefits might be available to tips on saving money and energy efficiency. Since it began, the Home Heat Helpline has received over 350,000 calls from across Britain.

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