[redacted] moved Amendment No. 25:

25: After Clause 81, insert the following new Clause—

"Display of information relating to tariffs

(1) In exercising the powers contained in—

(a) section 81(1) (power to amend licence conditions), and

(b) section 81(3)(g) (power to require the holder of a licence to make arrangements in relation to the protection of consumers),

the Secretary of State shall have regard to the desirability of establishing technical specifications for meters (under the provisions of section 81(3)(a)) which include specifications for the display on those meters of information to the consumer about tariffs for electricity and gas, and shall consult representatives of the gas and electricity supply industries prior to the establishment of such specifications.

(2) Such specifications shall have regard to the desirability of displaying information about variable tariffs, in particular "rising block tariffs" as defined in subsection (3).

(3) A "rising block tariff" is one in which there is a basic threshold price for electricity or gas and an additional percentage price premium applicable to each block of units about that threshold.

(4) In exercising the powers contained in section 81(3)(g), the Secretary of State shall report to Parliament within 12 months of the coming into force of this section on the desirability of a national standard for such tariffs, covering the matters specified in subsection (5), in order to facilitate the development of a common technical specification for meters.

(5) A national standard for rising block tariffs shall cover the following matters—

(a) the number of units of gas or electricity to be provided by the supplier at the basic threshold price annually,

(b) the number of units comprised in each subsequent block of units,

(c) the additional price premium payable per unit, applicable to each block,

(d) the calculation for the purposes of setting the minimum number of units to be supplied at the basic threshold price quarterly,

(e) arrangements for the setting of standing charges.

(6) Nothing in this Act permits the Secretary of State to determine the basic threshold price of electricity where a rising block tariff is in force."

[redacted] rationale

The noble Lord said: My Lords, this is a transparency-driven amendment. It has been trailed in the national press and has support in the European Parliament, where a committee is recommending that a similar arrangement be adopted throughout the European Union. It has a lot of support in the House of Commons. Indeed, an Early Day Motion was tabled there today by David Anderson, which refers specifically to the amendment.

The principle behind the amendment was referred to by Ed Miliband MP in an article in the *Guardian* last week. It states:

"He said he was also looking at the structure of tariffs so that people might no longer have to pay the highest price for the first tranche of gas and electricity they use".

This amendment was tabled in July, before the current energy crisis, and followed by work I carried out in the recess to devise a workable tariff system. The public simply do not understand the current system of energy pricing on their bills. The conversion factor on gas bills to kilowatt hours is gobbledygook. The discounting of bills for high users seems perverse. The injustice of prepayment meters and the levying of high standing charges make it impossible for mere mortals to compare energy prices due to a policy of inconsistency in unit volume charges across providers. The system needs surgery and the public need the protection of greater regulation.

My amendment has been the subject of extensive consultation during the recess. Due to difficulties over the Long Title of the Bill, I have had to graft the rising block tariff, which I shall refer to as the RBT, on to the back of a smart meter amendment, so it would be silly to vote on it. It is a probing amendment. The rising block tariff applies to domestic suppliers of gas and electricity. If we examine our gas or electricity bills, we will note that the initial units of electricity and gas are charged at a higher rate than subsequent units. Low-use consumers are penalised by the pricing structure, not only because of the early-units penalty, but the levying of standing charges. The present system is regressive in its financial impact by penalising poorer sections of society. The system also lacks any incentive to conserve energy. If we are serious about energy conservation, we should use the pricing structure for units of energy to influence investment in conservation measures.

The problem is that, while a relatively free market in domestic energy prices can influence conservation investment as prices increase, the effect is limited due to a lack of real incentives. We need a penalty built into cost to the domestic consumer, whereby the higher the consumption of units, the higher their price—in other words, a reversal of the present arrangement. Furthermore, introducing such incentives would provide an opportunity to affect the position of people on low incomes without necessarily drawing them into means testing. It is worth mentioning that many Labour Members remain as opposed to means testing as we were in the 1980s, when it was repeatedly condemned from the opposition Dispatch Box in the House of Commons.

Why cannot domestic energy prices be set at a discount for the first block of units, with subsequent blocks priced at increasing rates? It would be perfectly possible for the first block, what we might call block A, to be set at a discount from block B, a standard tariff, which itself could be less than block C, the premium tariff: discounted tariff over standard tariff over premium tariff. The block A tariff would be universally available to all consumers and

set at a level that maximised the benefit to low-income households. In blocks A and B fixed allocations of units would be available to all domestic hereditaments. The Government would set the number of units in each of those blocks and the percentage difference in cost per unit between blocks A, B and C. However, it is critical that the block A price, the discounted tariff, would be set in the free market by the energy suppliers. The Government would play no part in setting the block A unit prices. That would leave suppliers free to set their prices, which would need to be at a rate to ensure that their block B and block C prices were viable, competitive and affordable for consumers.

What are the advantages? The system would induce investment in conservation and there would be more careful management of energy use by householders as consumers sought to avoid moving into higher blocks, particularly into block C. There would be an element of redistribution. It would reduce the growing shift towards means testing. It would reduce CO2 emissions and suppliers would retain control of the price by being responsible, crucially, for setting the block A price.

What are the problems? It will be difficult to set the volume of units to be applied to each block, particularly block A. It will be necessary to calculate and agree to a reasonable number of units for allocating to block A for the basic usage of electricity and gas. Some useful work has been done by the Centre for Sustainable Energy in its report for WWF UK, *Waste Not, Want Not*. The statistical tables that it used on modelling are not altogether applicable to the proposals in my amendment, but they indicate the modelling process required in the establishment of a rising block-tariff structure.

Some households are single fuel and would lose out when compared with dual-fuel households, which would have the benefit of a universally supplied gas and electricity block-discounted tariff. The answer is to provide every domestic hereditament with two entitlements, one for gas and the other for electricity. Single-fuel households would be entitled to two electricity entitlements. The need to provide two entitlements for single-fuel households stems from problems with heating requirements. Dual-fuel households would have had the benefit of discounted gas entitlements denied to single-fuel households. Provision for those with disabilities and pensioners needs particular consideration.

In some households, heating requirements are much greater, due to disability. The RBT available to all should be set at a level that provides for basic energy needs. It could be calculated on the basis of an agreed square-footage-space energy requirement. Pensioner household space requirements would need to be fully considered, but the likelihood is that most pensioners would move into block B areas of consumption, certainly in heating fuel requirements. The RBT system does not do away with state support for low-income pensioner households, but it would reduce dependency on the state for heating support and transfer responsibility for that support to heavy users in a process of redistribution. The situation is more problematic in relation to the disabled. One option would be to allow RBT to apply to that group as it does to everyone else and let the benefit system take up the additional costs. Alternatively, it would be possible to have a separate RBT system for disabled groups with greater heating requirements, which for the purposes of this discussion I will describe as the special rising block tariff system. Block volumes under this system could be assessed on a different basis. The SRBT could be applied to groups that met some form of disability criterion. It might be possible to have either fewer blocks with greater spreads in terms of volume of units or a greater number of blocks with narrower spreads. A mechanism would need to be in place for registering SRBT entitlements and monitoring against abuse. It

would also be necessary to protect against suppliers refusing to supply disability groups with greater heating requirements.

Problems could arise over seasonal peak period uses of energy. Householders invariably consume more energy in the winter months, when there are greater heating requirements. It would be necessary to ensure the transfer-on of units between quarters at the end of each quarter, as is currently the position with some mobile phone free-minute allocations.

Differentials in regional temperature are not fully considered under present domestic energy pricing arrangements. It has been argued that a national pooling arrangement should be in place to compensate consumers in colder regions for their higher energy costs. It has also been argued that the pooling arrangement should be the responsibility of suppliers. Privatisation of the industry and competition in the marketplace have made this difficult to introduce. Under the RBT, any such pooling arrangements, if required, would need to be based on block A volumes of units allocated and not on price. More work also needs to be done on the whole question of Economy 5 off-peak electricity suppliers.

There are obvious problems for the Government in deciding on the RBT allocation of units, which identifies the number of units that comprise each block. There are also problems in setting the percentage increase between each block. For industry, there is the obvious problem of setting the price of block B units—that is, the standard tariff, to which I have already referred.

A number of problems arise over the timing of the introduction of RBT. It could be constrained by limited public understanding of the value of investing in conservation measures. There are also problems over the availability of conservation materials and skills—a problem which I suspect the Government will have in relation to the detail of the implementation of the announcement made in August on conservation measures. There are problems over the impact of block C tariffs on heavy consumers, and there are also problems over smart meter technology, when finally rolled out to deal with the introduction of RBT.

The answer is to introduce RBT over an extended period—perhaps as long as 10 years. Such a period would enable power suppliers, consumers and the energy conservation industry to adjust. In particular, it would enable suppliers of energy to refocus their efforts on further developing and refining their conservation packages, which would be of special interest to domestic energy users.

This amendment provides an early canter round the course. I understand that it is one of the first references that has been made in the Palace to this way of pricing energy, and I hope that the Government give it very serious consideration. That is certainly the expectation in the House of Commons and I should like to think that it is equally the position in the House of Lords. I beg to move.

[redacted]**:** My Lords, the amendment raises an interesting issue and I am glad to have had the opportunity to hear the noble Lord and to listen to the Minister’s views in a moment. There is no question that energy tariffs are unbelievably complicated, varied and appear to be entirely arbitrary. To improve consumer awareness of how much they are spending by leaving the television on standby is one of the primary reasons for installing smart meters.

However, I am concerned about the detail of the amendment. First, it involves a great deal of government intervention. To have the Secretary of State setting the detail in proposed new subsection (5) suggests a level of micromanagement that I do not believe would be helpful. The setting of an acceptable amount of energy that each household can use before being subject to premium pricing would also be fraught with difficulty. Many householders—perhaps those with the largest families—would find it unavoidable to fall into the higher blocks and would possibly end up subsidising the energy costs of a smaller household.

I fully sympathise with the desire of the noble Lord, Lord Campbell-Savours, to encourage prudent energy usage through the pricing structure, but I am hopeful that the next group of amendments will ensure that consumers will soon be better informed about the cost of their energy usage and will be able to act accordingly.

[redacted]**:** My Lords, this is an interesting proposal. I was feeling positively enthusiastic and crusading—I cannot say that; it is the wrong word, as is missionary, so I shall stop there before I get into even bigger trouble. I thought that it was exciting but then we got into the detail of what needs to be done, and I suddenly realised that it will go right into the long grass and be really difficult to achieve. However, I hope that the noble Lord will continue to pursue this.

The scheme needs to be simple although I understand entirely the difficulty suggested by the noble Baroness, Lady Wilcox, about the possible distributions between large and small families. I remember when the noble Lord, Lord Jones, introduced the Bill on Second Reading and I questioned him on the idea of trying to make energy companies become organisations that would sell energy conservation. That is great in theory but I cannot see it working. This is a pricing mechanism that would work in consumers' minds, which is its power. It starts to get difficult when it gets into the endless detail trying to make it equitable for everybody. There has to be a big trade-off to make it work, but it is a model that I much prefer to trying to pretend that all the energy distributors will move into organisations that are trying to sell less of their product rather than more.

[redacted]**:** My Lords, the noble Lord, Lord Teverson, has poured a little more cold water on the idea than I will do from the Dispatch Box. That makes me feel a little happier about my response, although I do not even have to say that I hope my noble friend will withdraw his amendment because he has already said that it is a probing amendment. What a successful probing amendment it is. Any noble Lord wanting information on what my noble friend Lord Campbell-Savours intended has only to read the press—particularly the specialised press on energy matters—to be fully aware of the campaign in which he has played such a significant part. I pay due tribute to him and I hope that he will not therefore think that I am doing what the noble Lord, Lord Teverson, did. I will express a few doubts as I agree with the noble Lord that nothing is easy in this area, but we see considerable merits in the proposals, which need examination. Any step that could help reduce this country's consumption of energy and, as a result, help to provide lower fuel bills for consumers is to be welcomed and must be considered seriously. The Government set energy efficiency at the heart of our strategy in the 2007 energy White Paper. Many of the emissions savings in the measures in that White Paper derive from the concept of energy efficiency policies.

The first part of my noble friend's amendment relates to smart meters and, in particular, to the benefits of setting technical specifications for those meters in the Bill. We had a short but

intensive debate on smart meters, and I know that my noble friend will have noted my response on behalf of the Government. He wants smart meters to display information regarding tariffs—in particular, rising block tariffs—which are the concept behind this amendment. I am not sure that rising block tariffs are sufficiently in public parlance to be referred to as RBTs, but I have no doubt that the assiduous way in which my noble friend goes about his business will make the concept of RBTs part of the energy debate in the not-too-distant future.

Rising block tariffs, the main purpose behind my noble friend's amendment, are an interesting and challenging concept. Decisions on the technical functionality of any smart meter will be made in the context of the wider design of any future roll-out, as I explained in response to the amendment moved earlier by another of my noble friends. I am beginning to fall back on the old statement: I may be able to cope with the Opposition, but the Good Lord protect me from my noble friends. My noble friend Lord Dubs put me on the spot regarding smart meters, and now I have my noble friend Lord Campbell-Savours raising rising block tariffs. He will have noted from my response to my noble friend Lord Dubs that we are some way off decisions on the functions of the smart meter. We know that when we have the chance to be smart, there are a lot of smart people about telling us in which direction we need to be smart, and the issues can become inordinately complex. We can see that there is enormous progress to be made, which is why the Government are indicating that we need the Bill to enable examination of the roll-out of smart meters, but we are bound to have reservations about having one function, however important, in the Bill.

The rising block tariff is the real thrust of my noble friend's amendment. His case is significant. He explained that as a consumer passes its threshold, the unit price of energy would increase by a percentage designated by the Government. That would differ from current billing arrangements, in which the first units of electricity are charged at the higher rate and subsequent units at a lower rate. As my noble friend demonstrated, there are significant reasons why we need to recast the way we have charged for electricity for many years.

I recognise that at face value there are potential benefits from the rising block tariff model. Such a pricing structure would help to reduce fuel bills for users who consume small amounts of energy and increase bills for those consuming large amounts, which would provide further financial incentives for consumers to reduce their energy use and would make us all increasingly energy conscious.

However, we have some concerns—as my noble friend said, what would be the point of a probing amendment if it did not reveal where the Government's concerns lay? I need to enumerate them. One concern is obvious. There is a risk that some fuel-poor customers, such as the elderly and the disabled, who spend more time at home than is average for people in our community, or consumers in less energy-efficient dwellings, could

see higher fuel bills as a result. We know that the elderly can be high consumers of electricity by dint of the fact that the rest of us—no one in this House qualifies as elderly—have other warm places to which we can go, not least this Chamber; whereas a lot of people for all sorts of reasons spend a great deal of time in their homes. Their homes may not be energy-efficient and, in any case, they need to consume a great deal of energy during the course of the day.

Such a tariff may reduce the incentive for energy companies to help consumers to become more energy efficient. The problem with the rising block tariff is that a greater percentage of energy company income would come from high energy users and a lower percentage from low energy users. That might have a perverse effect on how companies operate. There is a practical problem as well. Implementing a rising block tariff would also constitute a significant intervention in our competitive energy market, which brings us benefits, and would bring with it uncertainty for investors and additional technical requirements for new entrants. So potential costs are involved in the concept.

My noble friend, who is always fair when presenting the case, was good enough to identify some of the difficulties. He suggested that identifying the right thresholds and the right percentage increase between each would be a complex process likely to require regular adjustment. My noble friend does not need lessons from me on this, but regular adjustment of the concept on which a fuel bill is constructed might lead to the consumer—able through the smart meter to know exactly what was going on—being extremely irritated by frequent changes to the model. People need to take account of their energy costs; it is an important part of household income. My noble friend recognised that the complexity of the changes would not be an unalloyed joy for the householder, even if the meter reads things out accurately and clearly and reflects that complexity.

The Government seek a better understanding of the pros and cons of a rising block tariff; we intend to do that. Therefore, I do not believe that, as the amendment proposes, it is necessary to put that into law. My noble friend did not rate his chances at this stage highly; he was concerned to get the concept in the public mind and on the record; and to get the Government response on the record, which he will deploy effectively in future. However, I have to tell him that, if he were pushing the amendment, I would be pretty robust in saying that the complexities of the concept are such that we could not accept any such amendment at this stage. We do not believe that it should be in the Bill.

However, we are persuaded that it is necessary to investigate the potential of the rising block tariff concept as a possible route to greater energy efficiency—a major objective that we share with my noble friend. I am pleased to inform the House that Ofgem has already started work on this, and that it will among other things provide a more detailed understanding of this potential tariff model. My noble friend may have identified an area that will prove fruitful in the future, and I am grateful that he has already announced that he does not intend to press me any further today.

[redacted]**:** My Lords, the Minister did not mention the unfairness implicit in the amendment between people who live in cold areas of the United Kingdom and those who live in warm ones. There is an enormous difference in the electricity consumption that is forced on people by differences in temperature. Yesterday morning when I left my home, the cars were all encrusted with frost. When I got to London, it was comparatively mild. This is very often the case. Under the amendment, the price would rise far more steeply in colder areas.

Moreover, as someone mentioned, many people are forced to use much more electricity. If you have twins, plus a child of two and perhaps one of four, you have a far greater washing bill. You have to use a tumble dryer and all these expensive things, which you cannot avoid. You would go into the higher tariff quite quickly. Surely these are major considerations, too.

I quite see the splendid objective behind the amendment, but great unfairness would be built into this. Am I right?

[redacted]**:** My Lords, of course the noble Baroness is right. I merely sought to produce one illustration of the complexities of the concept and the potential attendant disadvantages. I mentioned the elderly, who spend a great deal of time at home. She gave another illustration: the different geographical parts of the country. One does not have to go that far north of London to get geographically cold parts. The north-east of Scotland is often portrayed as a difficult weather area—it can be quite cold—but people in other parts of the country know about frost on car windows in the winter. Of course she is right that there are many illustrations of some people being obliged to be heavy energy users. That is why I indicated how complex this issue is. I hope she will recognise that Ofgem is pretty well versed in these considerations.

[redacted]**:** My Lords, is the Minister aware that in eastern Australia this rising block tariff is used on domestic water? It is set at a very high level so that it does not have the undesirable consequences that have been discussed, but it does stop people leaving the tap running all the time. One could think of the Government using a level of VAT for a very high level of usage, if they chose.

[redacted]**:** My Lords, we are certainly concerned about the waste of energy. The noble Lord identified one form of that. I am slightly hesitant about sounding too enthusiastic about his illustration of what we could learn from eastern Australia, lest I lose half the civil servants in the Box to a trip to Australia to examine how the model is working.

[redacted]**:** My Lords, there is a Select Committee report on it. They do not need to go.

[redacted]**:** My Lords, in that case they will be totally reassured that they will be contributing to very limited public expenditure when they examine this case. I am grateful to the noble Lord for that point.

[redacted]**:** My Lords, I am indebted to my noble friend because once again he did something that characterises many of his responses to the amendments; he always throws in that little nugget at the end. Today's nugget was the reference to Ofgem and its work.

When you explain to the public that the first units are cheaper than the later ones, they often respond with disbelief. People never study their bills because they feel that they can never comprehend them.

I am grateful to the noble Lord, Lord Teverson, whose speech was helpful and not critical in the sense that my noble friend suggested. His comment on the need for a simple system is correct. When I started my work, I produced a very complicated scheme. Slowly, I have narrowed it down to a simple system based on block tariff principles. My reference to difficulties in the text of what I had to say arises from my view that when you argue a new idea it is always best to make it clear that you have already considered all the problems, otherwise people do not think that you have thought the principle through.

The noble Baroness, Lady Wilcox, referred to overregulation. If she, or someone in her office, studies tomorrow the text of the amendment, she will find that it is remarkably free of

regulation; namely, that block A tariffs are set by the energy distributors, which will effectively have control.

My noble friend referred to the elderly needing support, which I dealt with when I referred to the problems. However, that is where we should target our conservation measures. In the event that we introduce the system, they should be the priority areas. The concerns to which my noble friend referred will be considered by us all. When I further amend the paper that I wrote on this matter, I will make sure that his comments and concerns are specifically referred to so as to take the debate forward. On that basis, I beg leave to withdraw the amendment.

Amendment, by leave, withdrawn.