

## Regulating networks for the future

### Written response submitted on behalf of the Government's Fuel Poverty Advisory Group for England (FPAG)

FPAG welcomes the opportunity to respond to Ofgem's consultation regarding network regulation RPI@20.

The Fuel Poverty Advisory Group is a non-departmental advisory body, which consists of a chairman and senior representatives from the energy industry, charities and consumer bodies. Each member represents their organisation, but is expected to take an impartial view. The role of the Group is to:

- Consider and report on the effectiveness of current policies aiming to reduce fuel poverty;
- Consider and report on the case for greater co-ordination;
- Identify barriers to reducing fuel poverty and to developing effective partnerships and to propose solutions;
- Consider and report on any additional policies needed to achieve the Government's targets;
- Encourage key organisations to tackle fuel poverty, and to consider and report on the results of work to monitor fuel poverty.

### Context

**Fuel Poverty Figures** The Government's own estimate indicates that there are currently some 4.6 million plus households in **England** in fuel poverty. This compares with 1.2 million in 2004. Almost 50% are pensioners and overall some 80% can be categorised as vulnerable. The average domestic dual fuel bills (gas and electricity) increased from £572 to £1,287 (+125%) between January 2003 and September 2008. Although there has been some recent reduction in energy prices, the long term trend is for them to increase.

**Non gas areas** Government figures for 2006 indicate around 2.7million homes in England do not have mains gas; of these, just under 0.6million (21%) were fuel poor. Their plight is exacerbated by space and water heating costs using kerosene or LPG being respectively 50% and 90% higher than those for mains gas.

## **Government's fuel poverty targets**

The Government has two statutory based fuel poverty targets in England:

- By 2010 **no vulnerable households** to be in fuel poverty.
- By 2016 **no households** to be in fuel poverty.

It is clear that the first target will not be met. The second target is already in jeopardy, despite some of the Government's very positive announcements which include:

- The 'Green Deal' and post 2012 new supplier obligation
- Increased energy companies' social programmes and social price support proposals
- The 20 per cent uplift to the current Carbon Emissions Reduction Target programme (CERT) and extension to 2012.
- The Community Energy Saving Programme (CESP)
- Increased Cold Weather Payments

### **Main points:**

#### **Consumer equity and affordability, should all consumers pay equally for carbon abatement?**

A range of factors, such as security of supply, imported gas, carbon prices, low carbon objectives, power station construction and policy issues etc all have the potential to create uncertainty in the energy markets, drive energy prices higher and, increase the numbers of households in fuel poverty.

With every one per cent increase in prices, another 40,000 households are added to the number of homes in fuel poverty (Consumer Focus 2009). A thorough analysis of these factors and their implications for consumer equity and pressures placed on energy suppliers to keep energy prices low must be continuously reviewed.

As the UK moves to a low carbon economy, FPAG remains concerned that the costs and its implication have yet to be sufficiently explored. This is essential to adequately inform the decision making process and subsequent policy instruments to ensure consumer equity and affordability.

For example, the Government's Low Carbon Transition Plan gives only one energy price scenario, and a clearly optimistic one, with an average additional cost of £72 per annum by 2020. This is based on the assumption that all consumers will take 15% of their full energy efficiency makeover as comfort and the rest in reduced consumption.

For the fuel poor, many of whom under heat, this assumption is false and could potentially lead to complacency about the future affordability of energy for the fuel poor.

The attribution of carbon abatement costs is important and will require intervention to determine, for example, should recovery be on a per kWh basis, plus a higher charge at a certain consumption threshold. It is not clear where this responsibility for such a determination rests.

### **Capital provision for energy efficiency measures**

FPAG considers it essential that the up-front installation costs of energy efficiency measures, including more expensive measures, are fully funded for low income households. FPAG therefore welcomes the Government's recognition in its first Annual Energy Statement to the issue of fuel poverty and the declared intent for a new supplier obligation that, "will underpin the Green Deal, and focus particularly on those householders (e.g. the poorest and most vulnerable) and those types of property (e.g. the hard to treat) which cannot achieve financial savings without a measure of support".

As an alternative to increasing network assets the potential for the distribution business model to incorporate the capital provision for energy efficiency measures should be explored.

Distribution Network Operators (DNO's)/National Grid and others, with the appropriate cost recovery mechanism, could have the potential to raise the capital, at an acceptable cost, for energy efficiency measures. Smart meters could facilitate the secure and long term electronic means of cost recovery.

Subject to progress of the Energy Bill, this transaction could endure through change of supplier/ownership/tenancy, potentially by being tied to the property and being an additional part of a unique long term Distribution Use of System (DUOS) charge.

Alternatively, part of a fuel poor consumer's social price support could be used to fund the capital interest payment. The capital could be repaid when public funds permit or at the time of property sale.

### **Electricity and its creative use**

FPAG would wish to take this opportunity to reinforce the need for exploration and creativity in the use of electricity in the approaching transformational energy context. The future generating renewable and nuclear energy mix will create a number of significant challenges and opportunities in balancing supply and demand.

For example, the decision to take production from a renewable source compared to nuclear or clean coal will require new and creative demand side management opportunities. For example, resistive heating in a fuel poor context and the opportunity to inject marginal cost renewable energy on several occasions throughout the day has the potential to transform the way in which we traditionally consider heating and its costs. This approach could also help address some of the inequity endured by fuel poor consumers.

### **Heat Pumps and potential network reinforcement costs; who should pay?**

The development of heat pumps brings the very real prospect of an alternative heating solution for non gas areas. The RHI proposals should also facilitate this. Meanwhile, it is already apparent from some initial analysis undertaken by NEA and Central Networks that there could be network cost implications should Heat Pump development be successful.

At a conference 3<sup>rd</sup> February 2010 Central Networks gave a very compelling perspective and analysis on the impact of renewables on their UK distribution system. Projections indicate that by 2020 it could have some 150k Air Source (ASH) and 250k Ground Source Heat Pumps (GSH) connected to their distribution network. Far from flattening the load curve, Central Networks project that without intervention this type of technology, coupled with electric vehicles, will significantly increase the network capacity requirement and widen the gap between “normal” demand and “peak” demand.

Many non gas areas are often in rural locations and can have limited electrical capacity to take additional electrical loads without significant reinforcement. It is inequitable that the fuel poor non gas customer could continue to be denied affordable warmth by further and compounding implications of legacy issues by being asked to pay individually compared to the approach adopted for other measures through levies.

FPAG, therefore, asserts that the DNO regulatory formula that drives the individual customer to be asked for network reinforcement costs in this context is addressed as part of the Sustainable Network Regulation review. This should also include the regulatory incentives that would be necessary to stimulate network tariff development to help alleviate the implications for rural electricity networks coping with the added demand in a more general context.

FPAG looks forward to an ongoing dialogue on this important review.

Derek Lickorish  
FPAG Chair

6<sup>th</sup> September 2010