



Campaigning for Warm Homes

The Standardised Element of Standard Tariffs under the Retail Market Review

Comments from National Energy Action (NEA)

Background

NEA is a national charity working to ensure affordable energy for disadvantaged energy consumers. NEA seeks to promote this objective through a wide range of activities including:

- Policy analysis and development to inform NEA's campaigning work
- Rational and constructive dialogue with decision-makers including regulatory and consumer protection bodies, relevant Government Departments, the energy industry and local government
- Practical initiatives to test and demonstrate the type of energy efficiency programmes required to deliver affordable warmth
- Training and educational initiatives to improve knowledge and understanding of domestic energy efficiency among consumers and to ensure a skilled workforce across the energy efficiency industry

Since fuel poverty results from a combination of inadequate heating and insulation standards, low household income and high energy costs NEA engages in dialogue on all of these issues. This consultation has particular implications for domestic energy costs and NEA's comments reflect the charity's views of the likely impact of the proposals and what actions would best serve to protect the interests of low-income and vulnerable energy consumers.

Question 1: Do stakeholders agree with our proposed approach to those costs that should be recovered through a standing charge and those costs that should be recovered through a unit rate?

NEA Comment: NEA's priority is to secure the optimal outcome in ensuring that financially disadvantaged and vulnerable energy consumers face no further disadvantage through the structure of energy services delivery. Consequently, NEA has generally taken the view that fuel-poor households are better served by low standing charges at the expense of marginally higher unit costs. This is because low-income households tend to consume less energy than their more affluent counterparts, either because of their circumstances *i.e.* they occupy smaller properties and/or live in smaller households or, more likely, because their financial circumstances effectively require them to under-heat the dwelling to the detriment of their physical and psychological health and welfare.

NEA does recognise that the standing charge can serve as an equitable mechanism to recover fixed elements of the cost to serve energy consumers but believes that only these elements that are actually associated with provision of the service should be factored into the standing charge. We also recognise that charges imposed on domestic energy bills can be regressive in their impact and believe that this strengthens the case for minimising flat rate additional charges imposed to support social and environmental policies.

We are also somewhat confused as to Ofgem's views on this issue since the current consultation on regulatory support for vulnerable consumers states unequivocally that: *'This chapter outlines the policy context on vulnerable consumers and affordability. It also sets out our view that the cost of environmental and social initiatives should be structured on a per kWh basis rather than a per customer basis which we believe would be more progressive.'*

Question 2: Do stakeholders have any comments on the proposed broad assessment of the possible elements of the standing charge (set out in Appendix 1)?

NEA Comment: It is unclear why Green Deal administration costs are discussed in the context of an additional element to the standing charge. The Green Deal is a market-based commercial transaction involving those consumers opting in to

the programme and Green Deal providers. As such, NEA would see no role for non-participating consumers in funding any element of that programme. Any costs incurred by energy suppliers through Green Deal administration arrangements are matters for resolution between suppliers and Green Deal Providers.

As indicated above, NEA believes that only those costs that are attributable to legitimate cost of service should comprise the standing charge. Consequently, we do not accept that the cost of the Energy Company Obligation should be incorporated within the standing charge.

NEA would reiterate that all levies on domestic bills have a regressive impact on financially disadvantaged households. Clearly the most equitable means of funding Government social and environmental policy objectives would be through HM Treasury and direct taxation revenues; however, the Government is clearly averse to this approach, preferring the levy-based model. Consequently we would suggest that the significant costs associated with the Energy Company Obligation should be generated through an addition per unit cost.

In relation to the Warm Home Discount, NEA would reiterate the case made above that this programme should also be funded in the most equitable manner and that this should not involve a flat-rate charge. The manner of funding the Warm Home Discount should reflect ability to pay, and whilst consumption is an imperfect indicator of financial circumstances, it remains a better option than any mechanism that does not attempt to link cost to income status.

Question 3: Do stakeholders have any comment on the treatment of regional cost differences? Do they favour Option 1 or Option 2?

NEA Comment: Given the status of both gas and electricity supply as services essential to the health and welfare of all households there should be scope for more innovative thinking on this issue. Since Ofgem is prepared to intervene in the design of a regional adjuster, the regulator might also wish to consider how this element could be shaped to eliminate regional disparities. NEA would see this as an opportunity to introduce the concept of a Universal Service Obligation through the eradication of regional cost differences within the otherwise competitive and cost-reflective energy market.

Such an approach would also make a modest contribution towards ensuring that national policies such as the Carbon Emissions Reduction Target and the Warm Home Discount provided consistent levels of benefit across the nation in terms of energy cost reduction.

Question 4: Do stakeholders have any comments on the assessment of the individual elements of the possible regional adjuster (set out in Appendix 2)?

NEA Comment: See above.

Question 5: Do stakeholders agree with our proposed treatment of the standing charge (based on a broad assessment) and possible regional adjuster (using a formulaic approach) in the licence conditions?

NEA Comment: As indicated above, NEA does not support the use of a 'broad' standing charge to fund current and future social and environmental policy objectives prescribed by Government. Clearly, the most equitable means of funding such objectives is through Exchequer expenditure underpinned by direct taxation. In the absence of Government support for this view, NEA would advocate the 'least worst' funding mechanism which is link these charges to some indicator of ability to pay. Whilst high levels of consumption do not necessarily reflect affluence, there is evidence that low levels of consumption are associated with financial disadvantage.

Question 6: Do stakeholders agree with the proposed timing of any potential changes to the standing charge and possible regional adjuster?

NEA Comment: Given NEA's views on the options around the composition of the standing charge and regional adjuster the issue of timing is a peripheral factor. However, as with any development that impacts on domestic energy bills maximum consistency and minimal movement in energy price fluctuations is to be commended. NEA would therefore agree with the proposal to synchronise revisions to the standing charge and to regional unit rates.