

Strategy consultation for the RIIO-ED1 electricity distribution price control

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

The Fuel Poverty Advisory Group (FPAG) 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.

FPAG, therefore, welcomes the opportunity to input to this important consultation document.

Note: The diverse nature of the Group's membership may, on some occasions, prevent unanimity on some of the following points.

FPAG context

The Government has a legally binding target to eradicate fuel poverty by 2016¹. FPAG, as the Government's statutory advisory body on fuel poverty, wants to ensure that Government policies in all its forms are doing all that is reasonably practicable to meet this target.

The Government's own estimate indicates that in 2012 there are 3.9 million households in England in fuel poverty²; however some members of FPAG have calculated that with just the 2011 energy price rises this could now be as high as 5 million.³ Almost 50% are pensioners and overall some 80% can be categorised as vulnerable in some way.

The Government's Independent Review of Fuel Poverty,⁴ led by Professor Hills, found that fuel poverty is a distinct and important issue. As part of the Review's conclusions, they established a 'Fuel Poverty Gap' which measures the average and aggregate depth of fuel poverty expressed as the difference between costs faced by the fuel poor and typical costs of achieving a warm home. The Review found that fuel poor households are paying £1.1

¹ UK Fuel Poverty Strategy 2001

² Annual Report on Fuel Poverty Statistics 2012

³ NEA estimate November 2011

⁴ http://www.decc.gov.uk/en/content/cms/funding/Fuel_poverty/Hills_Review/Hills_Review.aspx

billion more for their fuel compared to typical households across England. The fuel poverty gap clearly demonstrates the enormous scale of the problem.

The Marmot Review Team report⁵ presented evidence on how cold homes lead to multiple health problems including excess winter deaths, respiratory health problems and mental health problems as well as an increased likelihood of poor educational attainment among children.

High energy prices have been the biggest driver in the increase in fuel poverty and the long term trend is for prices to continue rising. With every one per cent increase in energy prices, another 60-70,000 households are added to the number of households in fuel poverty⁶. Meanwhile, some Off-gas grid consumers face even higher energy prices if using Oil or LPG. In addition, others may have old and inefficient high cost electric heating systems exacerbated by very limited application tariffs.

The lack of gas penetration in certain parts of the UK is very much a legacy issue as is the varying degree of rural electricity network capacity post the industries privatisation in 1990. Since that time energy prices have also increased dramatically with the differential increasing between Oil and LPG compared to mains gas.

The recession, unemployment, welfare reform plus the energy industries investment plans estimated at c. £200 Billion to 2020⁷ and uncertainty over new generating capacity and energy prices will exacerbate fuel poverty levels. Meanwhile, FPAG remains deeply concerned that the costs and implication of the UK's transition to a low carbon economy, has yet to be sufficiently explored. Furthermore, the regressive means of collecting costs added to fuel bills to fund a range of related environmental and energy costs creates additional consumer inequity should these costs continue to be recovered in this way and not funded via general taxation.

The drastic reduction in funding for Warm Front, the under spend of the budget in 2011/12 and the scheme's complete termination in 2013, is particularly disappointing given that heating and insulation improvements represent the most rational and sustainable approach in addressing fuel poverty. It is, therefore, essential that the government implement alternative programmes to meet the target of eradicating fuel poverty by 2016.

The Green Deal and Energy Company Obligation (ECO) offer a new opportunity to assist both those households off the gas grid. However, most FPAG members believe that the ECO must be dedicated to the alleviation of fuel poverty and not used to subsidise expensive measures on behalf of 'Able-to-Pay' households whilst so many fuel poor household still require measures to be fully funded upfront.

Consultation response

FPAG very much welcomes Ofgem's continued drive to facilitate the public policy debate and consumer engagement in this complex area and particularly so at a time of rising energy costs and the industry's transformation to a low carbon economy. FPAG's response will be limited to issues relating to the fuel poor consumer.

⁵ The Health Impacts of Cold Homes and Fuel Poverty, written by the Marmot Review Team for Friends of the Earth, published in May 2011

⁶ DECC fuel poverty impact assessments 2010

⁷ Ofgem Project Discovery

The plight of the fuel poor behoves all stakeholders to redouble their efforts to help alleviate the problem by exploring the potential creative opportunities this consultation could offer.

FPAG's primary concern is for fuel poor consumers both on and off the gas grid, and whilst all households in fuel poverty should receive assistance, those households on the lowest incomes should be prioritised. For those households off the gas grid, the higher cost of fuel can often be exacerbated by the poor energy efficiency of the property and inefficient heating system, resulting in a much higher propensity to be in fuel poverty. In 2010, the average heating oil consumer had a modelled spend of £2,102 on their fuel costs per annum, compared to an average fuel spend of £1,287 amongst households on the gas grid⁸. In addition, households off the gas grid have an average SAP rating of 41, compared to an average of 55 amongst households on the gas grid.⁹ It can therefore be concluded that those households off the gas grid with the highest fuel costs also live in the least thermally efficient buildings, resulting in a higher risk of experiencing fuel poverty.

The advent of RIIO-ED1 provides a unique opportunity to explore the role Distribution Network Operators could play in both the social issues and fuel poverty agendas. In this respect, FPAG congratulates Ofgem on their recent proposals to look at the socialisation of network reinforcement costs regarding the installation, for example, of low carbon heating such as heat pumps particularly off the gas grid, until smart meters are fully rolled out. The relevance being that when complete it should be possible to determine the demand and influence of particular types of technology on the local distribution network. This should then assist the rationale for who pays for any network reinforcement required etc.

In shaping some of FPAG's thinking regarding the creative opportunity this strategy consultation presents we have sought to identify other existing energy policy landscape incentives/ambitions and the potential for a joined up approach to facilitate maximum leverage and consumer benefit through a DNO. Although initially difficult to comprehend the following examples of energy policy incentives/ambitions may bring the potential for mutually reinforcing policies into focus that currently do not present themselves in a coherent way:

- Ofgem - Regulatory incentives for distributed generation to avoid network reinforcement costs
- Ofgem - Load management incentives to avoid network reinforcement costs
- NGrid - System balancing incentives, at the time of excess of renewable energy
- DECC - District Heating being potentially "Green-dealable" in the future
- Ofgem/Ofwat - Bio-methane incentives for GDNs and Water Companies
- DECC - Reducing household carbon emissions
- DECC/EU - Carbon revenues – auction EU ETS and Carbon Floor Price and the EU desire to see 50% recycled back to consumers.
- DECC – Renewable Heat Incentive and CHP

By exploring some of the aspects of the above ambitions/incentives FPAG consider it is possible to envision potential example scenarios to assist the fuel poor through leverage of the various aspects. The following examples are put forward to demonstrate the concept:

⁸ http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx

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Example 1 Tower Block in a network constrained area.

- Tower blocks, although generally in a gas postcode area, they are unable to have gas installed. Most are occupied by some of the poorest in society; many are in fuel poverty due to very poor heating systems, high heat loss and a low income.
- Tower blocks are usually located in dense urban areas where it is possible network capacity constraints may/could exist at particular times of the year or alternatively capacity being made available to drive other commercial developments in a shorter timescale may be economically attractive and beneficial to the locality. (In some locations high-voltage network reinforcements can take several years to plan and complete).
- A distributed generation solution, run on gas or by bio-methane, could potentially avoid network reinforcement, drive other commercial opportunity and reduce attendant local roadwork disruption.
- The hot water created through the generation process could be used as a district heating scheme, perhaps funded by the Green Deal?
- The installation of hard to treat insulation as part of the new Energy Company Obligation / Carbon Saving Communities Obligation or alternatively explicitly a Green Deal; and or perhaps partially funded by the social registered landlord could make such a scenario even more financially viable.

Example 2 Off-gas grid small rural village

- Many rural electricity networks have limited capacity to take significant additional on peak or off peak electric heating such as ground source and air source heat pumps, etc without major reinforcement
- A small village amidst a rural farming community with the potential for a biomass/bio methane boiler/CHP/Micro CHP as part of the RHI or Green Deal
- The plant to either provide additional electricity FIT or a small local heating system funded by some of the incentives already mentioned
- Alternatively, a local small-scale gas not-for-profit network with bio methane injection feeding local boilers to facilitate a wet heating system or micro-CHP.
- Hard to treat insulation via ECO/Green Deal etc

Example 3 Demand side response

- In excess of 4 million UK households currently have a radio tele-switch which facilitates remote switching of economy seven type tariffs
- Many of these installations also have electric storage resistive type heating
- This GB radio tele-switch solution is considered by many industry observers to be one of the world's most efficient and rapid solutions to demand side management. Yet it is used very infrequently and only to a limited extent for this purpose. It is operated by the DNOs
- Increasing amounts of renewable energy will require this type of demand side solution to facilitate demand side management to manage the vagaries of wind power continuity for example.
- Consideration should therefore be given to using this mechanism in conjunction with today's more modern and refined resistive storage heating technology as a means of balancing system demand by storing surplus renewable energy as heat for off gas grid fuel poor consumers.

FPAG's vision is for the voluntary sector/stakeholders/industries being able to work together in both off gas grid communities and low income areas to establish networks and drive greater opportunities to be better protect the vulnerable and fuel poor consumers.

In this respect FPAG welcomes Ofgem's proposals for the gas distribution companies to extend the gas network and connect around 80,000 fuel poor households to the gas network at a cost of around £7 billion, between 2013 and 2021.¹⁰ However, greater impetus is still required to help fuel poor households access renewable technologies, ensuring a long term sustainable reduction in their energy bills.

FPAG also welcomes the proportion of ECO that will now be spent improving the energy efficiency of low income communities and in particular the 15% that will be spent in rural communities.¹¹ FPAG has long argued that a community based, street by street approach is the most effective way of improving the housing stock across the UK, and we therefore hope that the current proposal is something that can be built on further in the RIIO-ED1 context. It is hoped that the fuel poor in rural areas, particularly those off the gas grid, will be able to benefit from this policy.

National Energy Action (NEA), both through Warm Front and separately, has been involved in a number of alternative and renewable technology solutions including air-source heat pumps, solar thermal systems, and biomass heating and photovoltaic systems. These have highlighted, for example, how air source heat pumps installed correctly and with the right support to low income households can provide an effective solution to households without access to the gas network to heat their homes cheaper than other alternative expensive heating fuels such as oil and LPG. FPAG would therefore urge consideration be given to some kind of innovation fund within RIIO-ED1 to explore the characteristics and potential of this type of technology in relation to the implications for the longer term on the electricity distribution network and benefit to fuel poor consumers.

Conclusion

The RIIO-ED1 consultation provides a unique opportunity to bring together a number of disparate, but very important, initiatives/policies to form a creative and cohesive platform to assist a range of fuel poor customers through deeply considered and socially profound regulation. FPAG recognise it is not necessarily the role of Ofgem to regulate the off gas grid market, however, it is evident that there is a gap in regulation and coordination for these consumers. FPAG would welcome a wider discussion about where responsibility and policy development should lie for these neglected households.

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¹⁰ http://www.ofgem.gov.uk/Media/PressRel/Documents1/20120716_RIIO_Press_Release.pdf

¹¹ <http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/5536-carbon-saving-community-obligation-rural-and-low-.pdf>