

# National Energy Action (NEA) response to Ofgem's Consultation "Reviewing smart metering costs in the default tariff cap"



Action for Warm Homes

## About National Energy Action (NEA)

NEA<sup>1</sup> works across England, Wales and Northern Ireland to ensure that everyone in the UK<sup>2</sup> can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

We have been actively promoting the smart rollout for several years and are currently delivering the 'Smart Energy GB in Communities' programme<sup>3</sup> alongside our sister charity Energy Action Scotland (EAS). Through the programme, we are partnering with regional organisations from the voluntary and public sectors. This means we're able to work with trusted, expert organisations across the country to ensure people understand the benefits of smart meters and know how to get one.

NEA believes that smart metering has the potential to provide real benefits for vulnerable and low-income householders, but only if these individuals are effectively engaged and supported throughout the smart meter journey. We are proud to be working with Smart Energy GB and EAS to ensure that everyone has the same opportunities to engage in the smart meter rollout, regardless of personal circumstance or where they live.

## Background to our Response

Living in cold, damp and unhealthy homes continues to cause shocking levels of unnecessary hardship and premature mortality. Across the UK, at least 9,700 people die each year due to a cold home, the same as the number of people who die from breast or prostate cancer<sup>4</sup>. As well as the devastating impacts cold homes have on their occupant's lives, this problem extends to all of us; needless health & social care costs<sup>5</sup>, queues at GPs and A&E as well as delaying the discharge of the most vulnerable patients from hospital<sup>6</sup>. NEA believes dramatically improving domestic energy efficiency levels remains the most enduring solution to addressing energy affordability<sup>7</sup>, however, we also know other key actions are to safeguard vulnerable domestic customers, particularly those living on the lowest incomes<sup>8</sup>.

We have actively engaged at every stage of the formation of the price cap, from the formation of the legislation through to Ofgem's final consultation on its decisions surrounding the cap design. We are therefore well placed to assess how the proposed changes arising within this consultation affect fuel poor and vulnerable customers.

## Our Response

In the consultation, Ofgem proposes three things that we believe will have a material effect on vulnerable customers and fuel poor customers:

1. Transferring over to the new BEIS cost-benefit analysis when it is released later this year.
2. Considering the supplier request for an increased allowance to cover costs such as those relating to increased engagement when installing a smart meter.
3. Smearing the costs of smart metering over the lifetime of the cap to reduce the probability of a spike in the cap price if a significant amount of smart metering cost comes, for example, in a single six months of the cap.
4. Excluding some of the benefits within the BEIS CBA when passing it on to customers through the cap.

Although we are broadly in agreement with the first two of these, we do not fully agree with the third, and disagree with the last of these. We do not believe that excluding some of the benefits within the BEIS CBA would be fair to customers.

### Smearing the costs of Smart Metering

Although, on the face of it, it makes sense to smear smart metering costs over multiple years in order to reduce the 'peakyness' of a price cap (and therefore to reduce any price shock that may occur), we believe that the price cap should include a principle whereby customers should not pay for a service where they have not yet received the benefit of that service.

In the case of smart metering, it seems highly likely that a significant amount of the cost will be incurred towards the end of the scheme, meaning that if the cost is smeared, customers will be paying for smart meters that have not yet been installed. This is unfair, particularly for those customers who are already struggling with their bills.

### Excluding the benefits in the CBA

Much of the rationale for the smart meter rollout is based on the costs of the rollout being exceeded by the benefits in the long term. In the SMIP CBA, the benefits that are included are listed as:

- Energy savings;
- Supplier cost savings;
- Network-related benefits;
- Peak load shifting;
- Carbon savings and Air quality benefits

Almost all of these savings can only be achieved by a customer through their supplier, with the exception of energy savings, which are direct reductions on cost achieved by the customer. **Ofgem must ensure that all of the benefits of supplier cost savings, network related benefits, peak load shifting, and carbon savings are all included in the cap calculation, for the reasons given in the table below.**

| Benefit  | Scale of Benefit in CBA | How benefit is transferred                               | In Scope of Cap? |
|--|-------------------------|--|------------------|
| <b>Energy Savings</b>                          | £5,302m                 | Reduced usage in home means reduced total energy bill    | No               |
| <b>Supplier Cost Savings</b>                   | £8,250m                 | Reduced supplier Opex passed on through tariff.          | Yes              |
| <b>Network-related Savings</b>                 | 893                     | Reduced DUoS passed on through supplier tariff           | Yes              |
| <b>Peak Load Shifting</b>                      | 943                     | Reduced energy system cost passed on through tariff      | Yes              |
| <b>Carbon Savings and Air Quality Benefits</b> | £1,392                  | Reduced traded carbon emissions passed on through tariff | Yes              |

<sup>1</sup> For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

<sup>2</sup> NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

<sup>3</sup> For more information visit <https://www.nea.org.uk/smartenergygb/>

<sup>4</sup> NEA's recent joint briefing with E3G highlighted the UK has the sixth-worst long-term rate of excess winter mortality out of 30 European countries. Over the last five years there has been an average of 32,000 excess winter deaths in the UK every year. Of these, 9,700 die due to a cold home– the same as the number of people who die from breast or prostate cancer each year. The new analysis was released on Fuel Poverty Awareness Day the national day highlighting the problems faced by those struggling to keep warm in their homes. To read the press release and the full copy of the report visit: <http://www.nea.org.uk/media/news/230218/>

<sup>5</sup> 6 In 2016 BRE released its revised Cost of Poor Housing (COPH) report, which estimated the cost of poor housing to the NHS based on EHS and NHS treatment costs from 2011 and includes treatment and care costs beyond the first year. It also includes additional societal costs including the impact on

educational and employment attainment. Finally, it provides information in terms of QALYs (Quality adjusted life years) as well as cost benefits, and to compare with other health impacts. The report estimates that the overall cost of poor housing is £2bn, with up to 40% of the total cost to society of treating HHSRS Category 1 hazards falling on the NHS. Overall, the cost to the NHS from injuries and illness directly attributed to sub-standard homes was estimated at £1.4billion, and the total costs to society as £18.6 billion.<sup>6</sup> Research by the BRE in 2013 suggested that if all of the English housing stock with a SAP below the historic average of 41 was to be brought up to at least the current average of 51 through heating and insulation improvements, the health cost-benefit to the NHS would be some £750 million per annum.<sup>6</sup> Other estimates put the costs to the NHS of energy inefficient housing at £192 million (£35 million of which was in the private rented sector). Use of the BRE category 1 calculator put the estimated private rented sector costs to the NHS at between £37 and £674 million depending on SAP rating and occupancy level.

<sup>6</sup> Elliot AJ, Cross KW, Fleming DM. Acute respiratory infections and winter pressures on hospital admissions in England and Wales 1990-2005. *J Public Health (Oxf)*. 2008 30(1):91-8.

<sup>7</sup> NEA stresses to the UK Government the central importance of domestic energy efficiency remaining the most enduring solution to achieve collective goals; ending fuel poverty, a successful industrial strategy<sup>8</sup>, supporting small business growth in every region, helping to achieve carbon emissions reductions, improving local air quality, reducing health & social care costs whilst providing real benefits to households who are struggling financially. In this context, NEA has warmly welcomed the publication of the National Infrastructure Commission's (NIC) interim National Infrastructure Assessment (NIA). The interim NIA rightly identifies the need to urgently address the energy wastage in UK homes and states dramatically enhancing energy efficiency must be a key national infrastructure priority. NEA is also an active member of the Energy Efficiency Infrastructure Group who strongly support this approach. This approach is also currently supported by a growing number of Non-Departmental Public Bodies, academics, industry and NGOs. They all highlight why ending cold homes and reducing needless emissions via improving domestic energy efficiency must be a priority; no other form of investment can deliver so much.

<sup>8</sup> NEA highlights that net disposable income after housing costs of a low income household is £248 per week (£12,933 per year), equating to 60% of the UK median of £413 per week. The income after housing costs of a fuel poor household is even lower: £10,118 per year, equating to a net disposable weekly income of £194. Investigating income deciles shows the poorest 10% of UK society have a gross average weekly household income of £130 (£6,760 per year). Fuel poor households overwhelmingly comprise the poorest fifth of society: 85% of households in fuel poverty in England are located in the first and second income deciles and 78% of English households in those two deciles are fuel poor.