



Committee on Fuel Poverty

cfp@beis.gov.uk

Rt Hon Elizabeth Truss MP
House of Commons
London
SW1A 0AA

2 September 2022

Dear Liz,

I write on behalf of the Committee on Fuel Poverty as, in a few days, you may become the new Conservative Party leader and Prime Minister.

The Committee advises BEIS on Government progress towards reducing fuel poverty in England and we wished to give you our thoughts at this time of exceptional energy price increases.

The Committee has been working independently, and with officials, in the last few months on how to respond to the challenge of fuel poverty; a challenge exacerbated by this unprecedented rise in costs for domestic consumers.

Should you become Prime Minister, the current energy price crisis will be an immediate priority for your administration.

As you consider options for responding to this crisis, we hope the following suggestions will be helpful. These are designed to be practical actions that can deliver support to those most in need for the short to medium term.

Summary of our approach

The suggestions below to help with this crisis, seek to follow these principles:

- **Targeted support** tackles fuel poverty better than measures that affect all households equally. To avoid fuel poverty, Government would seek to ensure that the most support is targeted at those most in need. Ensure that everyone knows what help they are entitled to, and help is easy to receive, through automatic payment wherever possible.

- **Energy efficiency** needs more focus. To reduce demand for energy and reduce fuel poverty in the medium term, energy efficiency programmes need to be accelerated. Above all, the industry needs certainty of funding and future programmes.
- **Energy prices** should closely reflect the costs of generation, not merely the cost of the most expensive generation. The link between electricity prices and the wholesale gas price must be broken. A range of additional costs inflate bills but whilst necessary may be better met from general taxation.
- **Fair treatment of customers.** The regulator must have strong powers to make companies treat customers fairly. Ensure that energy companies comply with their legal obligations, and never take actions which make it harder for people to heat their homes.

Affordable Energy – targeted support

Intervention to mitigate price increases is welcome. We hope that this package will be accompanied by safeguards and additional support payments for those most in fuel poverty or at risk from cold weather, especially vulnerable pensioners and those with young families.

For the consumer there are a number of complementary measures to consider:

- **Income support to those most in fuel poverty** will remain vital. We believe that extra support via an increase in the Energy Bills Support Scheme and the Warm Home Discount will be necessary. The Cost-of-Living Support payments may also have to be extended, given that the cap is £749 more than assumed in May. These payments may have to be indexed against the Ofgem price cap, to prevent uncertainty every three months as the price cap ratchets up. For example, Ofgem's October energy price cap announced on 26 August is an 80% increase on the April cap.
- **Standing charges** could be reviewed. The high cost contributes to hardship for those least able to pay. There is a strong case for non-operational industry costs (supplier failure costs, Warm Home Discount costs, renewables electricity costs and energy efficiency costs) to be borne by the general taxpayer rather than equally by billpayers, which disproportionately affects those on lower incomes, including those in fuel poverty.
- **The Prepayment Meter penalty.** There is also an urgent need to consider whether it would help those in fuel poverty if the standing charge surcharge for prepayment metering was spread across all bill payers. In 2016, prepayment meter customers were the first to be protected by an energy price cap. Yet today, they pay £46 more than their neighbours without meters, a cost rising to £59 in October. This group of low-income consumers also pay for their energy in advance, over a shorter period than many bill payers, and so are already disadvantaged because of their payment method. The Regulator and Energy Suppliers may also wish to consider a moratorium on the compulsory transfer to prepayment metering for those in payment difficulty.

- **VAT on energy** will rise to £177 when the price cap increases to £3,549 in October. We realise that removing VAT benefits all income groups equally. But for lower income groups, VAT is not insubstantial. A social tariff could factor in the removal of VAT.

The above items influence the final bill, but the Committee believes that, in the longer term, levels of fuel poverty will also be influenced by downward pressure on energy prices. To this end, Government efforts to end the link between electricity prices and the wholesale gas price would be welcome.

An alternative targeted support – a social tariff

Above, we have suggested increased targeted cash support building on the approach of the Cost-of-Living Support package announced in May. However, an alternative to chasing the price cap increases might be a social tariff covering all of the lower income and vulnerable households.

This would immediately stabilise energy bills for those who cannot afford to pay for energy and are at genuine risk of harm during periods of cold weather. We would suggest a social tariff at or below the level of the April 2022 price cap. Eligibility might begin with those who receive the Warm Home Discount as well as other groups identified for additional payments in the May Cost of Living Support package.

The Committee appreciates that there are several models for social tariffs. Should the Government be minded to explore this option, the Committee would be happy to advise.

We recognise that a social tariff or other price limits may require a government subsidy to energy companies. Our advice is that the introduction of loans, guarantees or support funds must be tightly ring-fenced to support identified increases in wholesale costs only. Recipients must offer full transparency on trading accounts (for relevant UK and EU trading hubs) and all related-party companies relevant to UK energy sales should offset any additional profits gained (for example, in electricity generation) during this crisis to lowering bills for consumers, especially those impacted by fuel poverty.

Accelerating Energy Efficiency

All future energy scenarios require a significant increase in investment for energy efficiency and energy conservation. This is essential in solving the problem of fuel poverty, including in the short term.

This is even more important for those on low or fixed incomes living in poorer quality housing. Over 3 million households in England are classed as energy rating D and below. Households in E, F and G rated homes will use over twice the energy of A, B and C rated homes to heat the same space. Hard to heat homes exacerbate hardship, increase health risks, and create greater anxiety for the most vulnerable.

Energy efficiency is an integral part of the Government's Energy Package. As well as delivering clear benefits in affordability, it contributes to energy security and economic development for all parts of the UK.

Industry surveys indicate that there is presently spare capacity available to increasing energy efficiency measures such as cavity and loft insulation. Elsewhere, there are reports of one online marketplace seeing a 1,200 per cent increase in insulation orders in one week. It is crucial to mobilise industry to install measures as soon as possible to protect those in most need.

The current circumstances justify the Government going above and beyond the scale of existing schemes, to substantially ramp up the rate of energy efficiency programmes.

Above all, we urge you to ensure there is no uncertainty or delay about the funding of these programmes, which support a growing industry, present in every region of the UK.

The following suggestions may help:

- ECO4 - if the cost of ECO4 is transferred from energy bills to general taxation, there should be no reduction in the programme size, estimated at £1billion per annum. To avoid disruption to ECO4, scheme management should remain with energy supply companies.
- ECO Plus - The Government press ahead with the proposed ECO Plus scheme. This can bolster the ECO4 programme with further resources, help to owner occupiers, the private rented sector and social housing across the UK. The ECO Plus scheme should match the ambition of ECO4 with funding of up to £1billion per annum. This would help to create jobs and target fuel poverty effort across the entire country.
- Local Authority Delivery Scheme (LAD) and Home Upgrade Grant (HUG) - LAD Phase 4 funding should be announced as soon as possible to ensure a seamless programme from March 2023 onwards. HUG is very important in specifically targeting fuel poverty with area-based targeting. The level of LAD Phase 4 and HUG 2 should be combined to at least £750m per annum for the next three years. Local authorities are key partners co-ordinating investment in energy efficiency but are sometimes hamstrung with limited planning and co-ordination resources. Some of the increase in funding could help local authorities in this task.
- Social Housing Decarbonisation Fund - This important scheme has the potential to be a very effective means of alleviating fuel poverty - especially in relation to the 450,000 homes in this sector still below EPC C. To meet the Government's existing Manifesto commitment, funding for this scheme could be raised to £550m per annum. We recommend a programme life of five years or more to build confidence in the supply chain to deliver a step change in the quantum of social housing upgraded each year.
- The Private Rented Sector – we hope an early decision will be taken to bring forward dates for new Minimum Energy Efficiency Standards for rented homes. In the current crisis, the 2025 deadline (2028 for some tenancies) is a long way in the future, and the sector must be cajoled into action sooner, rather than later.

- Institutional - To complement existing funding activities in energy efficiency for households, the Government could examine the potential for green bonds, leasing incentives and other mechanisms to mobilise investment from institutional investors.

Reducing overall demand can ease system pressure and have a downward effect on market prices. Complementing the approach to household energy reduction, there are potential gains from undertaking aggressive energy efficiency and demand side management reductions in commercial and industrial sectors. Effort on demand reduction and smoothing at times of peak demand should be co-ordinated as much as possible, perhaps via the ESO. Our rationale for highlighting this measure is an energy security point. Should there be shortages or blackouts due to these extraordinary circumstances, we know that vulnerable consumers would be at more risk.

Helping the most vulnerable, this winter

This coming winter will place an unimaginable burden on, and risk to, those in fuel poverty. It is important that we are able to help those living in anxiety and fear from the large increases in household fuel bills. Many of the most vulnerable in our society will be at risk in terms of their health and well-being. In the last few months, we have championed the development of a comprehensive Winter Energy Plan.

The Winter Energy Plan the Committee envisages would include:

- A co-ordinated communications and support plan that extends to all Departments and agencies of Government to provide help and protection to the most vulnerable. This would include local authorities, health and care agencies and voluntary organisations.
- A mechanism to monitor in real time items such as payment profiles, self-rationing and disconnection, energy company cashflow, degree day impacts and cold related illness.
- Special funding support to local authorities to provide day care warmth and warm food for those at greatest risk.
- The Winter Plan would be led by BEIS, but reflect a shared approach with DLUHC, DWP and DHSC.

A successful winter plan will make people feel supported and reduce unnecessary additional burdens on the NHS through the winter months.

If you wish to discuss these or other ideas or use us as an informal sounding board for initiatives going forward, the Committee is at your disposal.

Yours
Caroline

Rt Hon Caroline Flint
Chair – Committee on Fuel Poverty

Members: Liz Bisset; Anuradha Singh; Belinda Littleton, Anthony Pygram and Gordon McGregor

Cc.

Rt Hon Kwasi Kwarteng MP, Secretary of State for Business, Energy and Industrial Strategy

Lord Callanan, Lords Parliamentary Under Secretary of State, Minister for Business, Energy and Corporate Responsibility