

13 October 2008

UK Renewables Team
BERR
1 Victoria Street
London, SW1H 0ET

Dear UK Renewables Team,

Consumer Focus response to BERR's consultation on the Renewable Energy Strategy

1. Consumer Focus's strategic goal is to campaign for a fair deal for consumers, both current and future. Consumer Focus therefore wants to make sure that sustainable solutions are identified to combat environmental problems, chiefly global warming. As part of this we see the development of renewable energy as an important investment in the future. To be truly sustainable, however, this must not impact disproportionately on lower income or otherwise disadvantaged groups of present consumers. Long-term carbon and renewable energy goals will be more achievable once fuel poverty is eradicated. We also consider small scale renewable energy can make a major contribution towards reducing fuel costs for low income consumers, particularly those living in 'hard to treat' housing.
2. Consumer Focus supports the EU's target of meeting 20% of energy from renewable sources by 2020. However, we recognise that a national target of 15% will present the UK with an immense challenge. We therefore welcome BERR's attempt to devise a broad framework under which renewable sources can come forward whether in the electricity, heat or transport sectors. We are pleased to provide an input into the policy-making process.

3. Consumer Focus welcomes the recognition that energy users, as well as suppliers, will need to be engaged. We also welcome BERR's acceptance that a renewable heat mechanism is required, and that feed-in tariffs are probably a more appropriate way to support small-scale generation than the RO. Finally, we warmly welcome the renewed focus on energy efficiency and resource productivity.

4. In assessing the draft strategy we are mindful of the potential burden of the targets on consumers. In particular we stress that although a context of rising energy prices strengthens the rationale for both energy efficiency and renewable energy, any increase in bills will impact disproportionately on lower income consumers. Promoting energy from renewable sources has a much higher net cost than promoting energy efficiency, with the latter generally resulting in a net benefit. We therefore consider that the Impact Assessment should assess the impact of implementing the RES on domestic prices by household type and income decile. Proposals for mitigating these impacts should also be included.

Specific comments

Energy efficiency

5. Energy efficiency and increased resource productivity is vital to meeting the UK's renewable energy target. The target becomes more achievable the lower the total energy demand the UK has. This is essential for containing the costs of decarbonising the energy supply and meeting the targets. Our predecessor organisations, energywatch and NCC, long advocated an increased emphasis on demand side measures. It is essential these are given the same importance as the supply side measures outlined in the draft strategy. Industrial consumers, in particular, can make an important contribution to reducing overall energy demand if the right incentives are put in place. It is also essential that measures in

one area do not create unintended adverse consequences in other areas, but are rather seen as a total package.

6. Bringing the existing building stock up to a minimum standard is vital if we are to stabilise energy demand, and then reduce it. There are many fiscal incentives, yet to be implemented, that would make a considerable difference to domestic and small commercial consumers. These should be implemented straight away. They include a reduction in stamp duty and a reduction in council tax for energy efficient homes and a standard reduced VAT rate for energy efficiency materials. Greater use of enhanced capital allowances would incentivise companies to introduce smarter technology to increase energy efficiency.
7. Consumer Focus also notes that universal smart meters and integrated displays will give consumers greater control over their energy use and, when coupled with good quality energy advice, make an important contribution towards reduced demand.

Consumer involvement

8. Consumer consciousness about carbon emissions has grown considerably in recent years. As a result domestic consumers are becoming much more interested in the environmental impact of their daily lives. This also applies to companies – especially those with a direct consumer interface, such as large retailers – whose marketing strategies often include claims regarding their own carbon emissions, and report on them to their shareholders. This results in a growing demand from consumers and shareholders for goods and services supplied by companies that have a positive environmental profile. As part of this there is a growing demand from consumers for investment in, and supply of, renewable energy.
9. This ‘consumer pull’ is a very powerful resource that must be mobilised if the renewable target is to be met. Consumer acceptance is vital as progress towards meeting the target

accelerates. Fiscal incentives will never work efficiently without the necessary public support for them. Yet recent Government policy decisions not only ignore the consumer demand aspect, but often work in the opposite direction, cutting consumers out completely. Prime examples are the Ofgem green supply proposals and Defra's guidelines on greenhouse gas emissions reporting. Consumer Focus therefore stresses the need for a consistent approach to the promotion of renewable energy across all parts of Government, rather than the piecemeal approach that is currently taken.

Microgeneration

10. Despite increasing consumer interest, Consumer Focus accepts that on-site renewable heat and power at the domestic and small commercial level still has high up-front costs. A number of policy initiatives are required to encourage more widespread uptake.

11. First, comprehensive energy efficiency is an essential pre-requisite, both in terms of measures and behaviour. The Government should set challenging SAP standards for domestic properties and increase activity in the hard-to-treat sector considerably. Second, fiscal incentives must address up-front costs as well as on-going production. Third, economies of scale must be driven through regulations for new building and refurbishment. Finally, low income consumers must not end up contributing to the costs but not receiving any of the benefits – a strict policy of equity is essential.

12. Indeed, Consumer Focus considers policy should make sure that low income consumers, particularly those living in hard to treat properties, are most likely to benefit from microgeneration technologies. To date, the energy efficiency element of fuel poverty policy has almost entirely focused on the 'low hanging fruit' of loft and cavity wall insulation and gas central heating, with very little on offer for low income consumers in solid walled and 'off-gas' properties. Microgeneration, together with solid wall insulation

and CHP, could play a major role in significantly reducing the fuel costs for the 50% of fuel poor households living in hard to treat properties.

Renewable Energy Tariff

13. Consumer Focus is part of a coalition arguing for a Renewable Energy Tariff (RET) to replace the RO for domestic and small commercial producers of renewable electricity and to provide a new funding mechanism for small scale renewable heat and gas. With respect to electricity, the RET is similar to a feed-in tariff and would apply to the full amount of electricity produced by the system, not just that part fed into the grid. It would take the form of a levy administered along the lines of the existing Fossil Fuel Levy (FL) administered by Ofgem with the purchasing functions carried out on behalf of suppliers by the Non-Fossil Fuel Purchasing Authority (NFPA). It would need an agreement between suppliers and electricity distribution companies as to how the costs and benefits are recognised in the charging mechanisms.

14. With respect to heat, the RET will require a deeming mechanism in which producers of renewable heat are given a set rebate per unit of energy produced on their energy bills. The size of the rebate would be calculated on the basis of the particular technology installed and its size. If coupled with parallel policies to cover the installation costs of renewable technologies, a heat RET could potentially play a major role in reducing fuel poverty among low income households, particularly those living in hard to treat properties.

15. Consumer Focus's predecessor body, energywatch, commissioned research from the Centre for Sustainable Energy (CSE) into the impact of a renewable energy tariff on consumers, particularly low income consumers. The research involved detailed modelling of a heat and power RET on consumers, using the Expenditure and Food Survey. A number of scenarios were modelled, including a 'market stimulation tariff' in which the tariff is adjusted to reflect the costs savings from reduced consumption of conventional

energy and the tariff is paid for 15 years. CSE recently submitted a draft research report to energywatch; however, Consumer Focus has yet to peer review the report's findings and recommendations.

16. Given this caveat, the research does seem to suggest that a RET would provide a considerable boost to small scale renewables. Potentially, under the most optimistic scenario, small scale renewables could contribute around 20% of current domestic heat and power demand. The cost of one of the scenarios modelled suggests that the cost to consumers of the RET would be in the order of the current CERT programme (assuming that the RET costs are entirely socialised across energy consumers and are not funded from other sources). The research also suggests that a heat RET is more cost effective than a power RET, with the former having the potential to be particularly beneficial to fuel poor households. The study also suggests that domestic level photo-voltaics are the least cost effective technology and would require a very generous tariff subsidy to allow payback within 15 years. Furthermore, there is a risk that a RET designed to encourage PV would favour higher income households.
17. Consumer Focus intends to publish the results of the research in the near future and considers it will make a valuable contribution towards the development of policy towards small scale renewables. Our preliminary assessment of the findings suggest that it is important for policy to focus on stimulating small scale renewable heat technologies and that such technologies could potentially play a valuable role in reducing fuel poverty (particularly since low income households tend to be 'heat poor'). We note that the FPAG microgeneration sub-group recently reached similar conclusions.

Smart meters

18. Increased levels of installed microgeneration will depend on the roll-out of smart meters that can deliver a whole range of benefits to consumers, whether domestic or small

commercial. While the Government intends to mandate roll-out to the latter group, there is still no agreement for the roll-out to domestic consumers. Once smart meters are installed electricity distribution companies will need to make sure that their load profiles can take account of the locally generated electricity. This in turn will reduce the overall losses from the system and maintain the integrity of local electricity networks.

Renewable heat incentive

19. We strongly support the development of a mechanism to support renewable heat, which the Renewable Energy Tariff described above would also cover. In the case of domestic consumers the majority of their carbon emissions accrue from space and water heating rather than from the direct use of power. However, we recognise that there are complex barriers to be overcome. This is partly because the 'heat' supply market is more diffuse than the electricity one. It is also partly because investment in networks is very long-term and requires a stable regulatory and fiscal environment to make sure the necessary infrastructure adjustments are taken, for example that facilitate the use of biomass either in district heating or individual housing complexes. The incentive should not discourage the extension of the gas network where it is feasible as this, though not renewable, offers improved comfort and reduced heating costs to low income households.

20. A combined Renewable Energy Tariff that covers both electricity and heat would ensure simplicity for consumers who do not readily differentiate between heat and power, and allow for economies of scale for the regulation and enforcement of the two elements of the scheme.

Green supply

21. Our predecessor organisations, energywatch and NCC, consistently argued that full and accurate disclosure of tariff level fuel mix will provide transparent valuation of renewable and low carbon electricity and thus allow effective forces of supply and demand. This will

create the consumer 'pull' that is essential if the UK is to meet its challenging EU target. We are therefore disappointed that, in its latest consultation, Ofgem proposes an approach that goes in the opposite direction. We are of the view that, by disclosing individual fuel mix, suppliers can differentiate their offerings on the basis of the percentage of their fuel mix accounted for by renewable electricity. It also allows them to compare themselves with other suppliers on the basis of their green credentials. This is especially important for small, niche suppliers whose identity is forged with purchasing only renewable-sourced electricity. Forging this relationship between consumers and suppliers of renewable electricity is essential if consumers are to engage in the process of meeting the overall target.

Fuel poverty and equity issues

22. Currently, climate change policies make up around 14% of domestic consumers' electricity bills and 21% of average industrial consumers' electricity bills. (For gas, the figures are 3% and 4% respectively.) Under existing policies, these percentages are expected to rise to 18% of domestic consumers' electricity bills by 2020, and 55% of average industrial consumers' electricity bills. Higher fuel costs are expected to reduce these percentages, while reduced consumption will increase them. We note that, beyond 2020, Government's expectation is that this investment today will lead to consumer prices that are lower than they otherwise would have been.
23. Nonetheless, BERR estimates that implementing the Renewable Energy Strategy will add 5% to domestic consumers' electricity bills by 2020 and 6% to average industrial consumers' electricity bills in addition to the cost of existing policies. Between 2020 and 2030 the figures are expected to rise to around 15% for both domestic and industrial consumers. By 2020, implementing the Strategy could add as much as 37% to domestic consumers' gas bills, and up to 50% to average industrial consumers' gas bills.

24. The Impact Assessment did not break these costs down by income decile. Given the hardship many consumers are currently suffering as a result of high energy costs, it is essential that Government sets out the ways in which the regressive impacts of the additional costs are mitigated. Even though the additional costs are relatively low up until 2020, nonetheless these are percentage figures, and so the absolute sums that underpin them are substantial and are likely to impose a considerable burden on low income households. Consumer Focus would therefore like the final Impact Assessment to address the impact of price increases on different income deciles, and for the final version of the Strategy to address the distributional issues in much more detail.

Regulatory framework

25. Consumer Focus would like to see a much more integrated, joined-up approach to Government energy policy-making. There are still notable differences in the approaches taken by Defra, BERR, CLG and Ofgem to meeting the climate change agenda. Given the nature of the task ahead we were pleased to see the creation of a single Government department responsible for climate change. However, more remains to be done; for example, we would also like to see the regulator's duties and powers brought into line with the national policy agenda.

We look forward to seeing the outcome of this consultation.

Yours faithfully,

Lucy Yates
Principal Policy Advocate