

ENERGY POLICY ISSUES: WHO PAYS FOR OUR ENERGY FUTURE?

Paper 6b

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Attachments: **Indicative project timeline**

1 Issue

- 1.1 This paper describes a proposal to undertake a significant research project to better understand the impact of current government policy on consumer bills (domestic and small businesses) and to enable us to have the necessary evidence base to effectively influence policy makers in the interests of consumers. The research programme is made possible because we can reallocate the underspend on our energy budget, caused by our inability to fill vacant posts, toward large scale research and evidence gathering.
- 1.2 Energy prices are rising as a result of volatile commodity costs but also as a result of policies that make companies invest in carbon reduction. The replacement of ageing assets, the need to ensure security of supply and subsidies to combat fuel poverty all add to bills. Electricity prices will soon incorporate carbon taxes.
- 1.3 Energy prices represent one of the most complex and contentious areas of consumer detriment that Consumer Focus addresses. We not only contribute to policy development but we influence public discourse on these issues on behalf of consumers. As the drivers of costs to consumers change, we need to develop our own thinking and evidence base in order that we can continue that leadership role, engage decision makers with authority and be able to deliver a clear message to policy makers.
- 1.4 The policy and regulatory activity in this area is creating a great deal of public debate. Rhetorically at least, the interests of consumers are held to be central in this. However the impact on bills and assessment of what is in the consumer versus tax payer interest is frequently unclear. Consumer voices and preferences, priorities and trade-offs are largely missing from the discussion, other than as passive recipients of higher prices or energy saving initiatives.
- 1.5 This is happening at a time when confidence in the energy companies is at an all time low. If the impact on consumers, consumer priorities and demand-side energy efficiency measures were properly understood and harnessed, trust in the system might be improved and policy goals achieved more cheaply and with less resistance.
- 1.6 Our objectives are:
 - 1.6.1 to provide a credible view on the cost scenarios and their potential impact on consumer bills and in particular on households at risk of fuel poverty
 - 1.6.2 to ensure decision makers take consumer priorities regarding 'trade-offs' into full account as programmes and policies to achieve carbon reduction targets are considered and major investment decisions are made
 - 1.6.3 to make the biggest contribution we can to the diverse workstreams that government, Ofgem and others are taking forward in response to the complex challenges at the heart of energy policy

2 Recommendations

- 2.1 We invite the Board to consider and endorse the overall scope and content of this strategic project.

3 Background

- 3.1 Energy policy is using a mixture of individual customer (Green Deal), general consumer (Feed-in tariff & Warm Home discount) and general taxation (Renewable Heat Incentive) measures to finance environmental and social programmes policy goals. Similar issues arise in the water market too. Policy makers are undertaking work to assess the costs of policy on prices and consumer bills¹.
- 3.2 The European Commission anticipate a scenario of rising energy prices until 2030 at least. The current UK investment programme in electricity, commonly said to be some £200 billion by 2020. Government believes that these costs will be offset by the success of the Green Deal programme.
- 3.3 The investment programme and policy making environment is overwhelmingly supply focussed. However, there are opportunities to reduce demand for electricity in consumers' homes too. These have been neglected by UK policy makers but are an important part of the 'energy mix' in Europe and many states in USA.
- 3.4 It is not easy for consumers to understand the impact that energy and climate change policy might have on their energy bill over the coming years. While energy suppliers cite policy as one of the factors in tariff increases, others often announce policies as leading to reducing costs for the consumer. Consumers may be aware that energy and climate change policies will impact on their bills but they are less likely to understand the extent of that impact, the reasons for change to bills or what decision makers could do to minimise the cost burden on households.
- 3.5 There is much existing work on consumer views on a green tax shift (Green Fiscal Commission 2008), on future investment need in generation, transmission and distribution (Ofgem's Project Discovery and Electricity Market Reform), fuel poverty (The Hill Review).
- 3.6 There is further work in the pipeline: Decc are to publish a revised analysis of the impact of carbon policies on customer bills later this year, EST/Defra/Decc is to publish "a home electricity study" on the stock & usage patterns of appliances and Transform-UK is soon to produce a report on whether the proceeds from EU-ETS and carbon floor price could alleviate fuel poverty by 2027 if invested in home energy efficiency. DECC are due to commence a Consumer Engagement Strategy in 2012.
- 3.7 While Consumer Focus should not duplicate existing work, it is important that there is a simple and credible overview of how different scenarios of energy costs would impact consumers in order that we are able to lead the public dialogue on behalf of energy consumers.

4 Issues for consideration

- 4.1 We propose three separate pieces of research and one piece of framework development.
- 4.1.1 Review existing research and publications (c.f 3.6 and 3.7) to identify credible cost scenarios and to undertake sensitivity tests to understand the impact of key,

¹ <http://www.decc.gov.uk/assets/decc/What%20we%20do/UK%20energy%20supply/236-impacts-energy-climate-change-policies.pdf>

uncertain assumptions on consumer bills, both for domestic consumers and for non-domestic consumers.

- 4.1.2 Analyse the impact of Government policies on carbon reduction and fuel poverty on energy bills across specific consumer segments. This would assess the soundness of assumptions, adequacy of analysis on consumers and any concerns about the methodology
 - 4.1.3 Undertake quantitative and deliberative work to understand customer's views on energy related environmental and social charges and taxes
 - 4.1.4 Develop a framework for assessing the trade-offs that exist between affordability, carbon reduction and security of supply.
- 4.2 We aim to have the research in the field and completed before the end of the financial year. This is a challenge. However these are not new areas of work for us. We have identified the internal resources to manage the work and are able to move quickly to produce the relevant tender materials to ensure an evidence basis that is delivered on time, represents good value for money and enables Consumer Focus to make the greatest positive impact on the policies and vehicles designed to mitigate the cost on consumers.
- 4.3 In addition we will take steps to ensure that there is no material duplication with other bodies and that the work has the widest applications:
- 4.3.1 The research projects will yield high profile outputs but will need to be 'sense checked' with bodies including Decc, Ofgem, EST, UKBCSE.
 - 4.3.2 We want to extend the scope of the work beyond the domestic consumers and will explore with representative bodies for local government, energy intensive users and business how to extend the analysis (esp in regard to 4.1.3) to non-household energy customers.
 - 4.3.3 The project needs to link with other Consumer Focus campaigns and research projects, in particular lobbying for EU-ETS proceeds to be spent on fuel poverty, our engagement in the Electricity Market Review, Green Deal and smart metering.
- 4.4 We estimate that the total cost on these research programmes will be in the region of £150,000 - £180,000. The budget for such a large research cost comes partly from revising existing research spend agreed in the context of the work plan and from utilising part of our current level of underspend. The final costs will be determined by the relevant tender exercises and value for money will be assured through the active oversight of the Director of Policy and External Affairs and the reference group.

5 Outputs from the Work

- 5.1.1 The research is wide-ranging but will work toward some precise outputs. The outputs need to be timed to fit into policy discussion of carbon floor prices (Budget 2012), on-going policies on Energy Company Obligation, Green deal, Warm Home Discount, ERM's demand-side feed-in tariff discussion & EU policy on energy related products (ErP) directive.
- 5.2 We anticipate that the key outputs would be:

What Our Energy Future Could Cost Us?

- 5.2.1 To produce a credible basis from which to discuss the scale of the pressures on bills and the challenges that face consumers, service deliverers and decision makers as they look to offset there pressures, in particular through energy efficiency and fuel poverty measures

- 5.2.2 We would publish these results to inform existing debates and deploy them in our public and media facing activity. They would form the basis of a stakeholder engagement programme to present to identify those critical trade-offs that we believe will characterise critical decision making over the coming years

What Consumers Can Tell Us About Our Energy Future?

- 5.2.3 Using the qualitative material from the focus group research we will present findings in video and more traditional formats to make consumer preferences and considerations the core of a greater part in future discussions about those critical trade-offs.
- 5.2.4 We will make the material the core of the ongoing engagement strategy - involving Chatham House and open debates - with the main decision makers so that we might hardwire the consumer perspective into their thinking and scenarios

What Could This Tell Us About Energy Policy

- 5.2.5 The purpose of this work is to influence the ways in which government and regulators, inter alia, think through the most complex areas of energy policy and which measures may be most effective to protect and engage consumers in mitigating increase energy costs. From the beginning of the project we will work with DECC to hardwire this material into their existing workstreams - market reform, EMR, Green Deal, Fuel Poverty, to place the perspective of consumers closer to the heart of decision making.

6 Next steps

- 6.1 Prashant Vaze will lead the management of these research projects. He will work closely with members of the Energy Team and we will identify an expert resource from outside Consumer Focus to provide support in developing and testing the research tenders to ensure value for money and quality assurance.
- 6.2 Given the size of the research programme and the speed required to deliver, a small reference group consisting of Adam Scorer, Audrey Gallacher and Sharon Darcy will help Prashant in the direction of the project
- 6.3 Research identified in 4.1.2 will form the biggest piece of research and will take the longest to deliver. Consequently, this will be the priority area for action and we intend to tender for this piece of research within November.
- 6.4 Precise objectives for other pieces of work will be worked up in light of DECC's revised impact of carbon policies on bills.