

ENERGY POLICY REVIEW

CABINET OFFICE PERFORMANCE AND INNOVATION UNIT

SUBMISSION BY NEA

1. NEA is the national energy efficiency charity which develops practical solutions to fuel poverty and campaigns to eradicate cold, damp homes. NEA welcomes the decision to review UK energy policy to 2050 and the opportunity it provides to comment on future priorities. Fuel poverty is a significant problem in the UK, affecting over 6 million¹ households and causing both financial hardship and poor health. Future energy policy, especially if it results in significant price increases, will have significant implications for all households, but particularly those on low-incomes who are most at risk from fuel poverty.
2. NEA believes that the review must give priority to the social consequences of energy policy. The Government is in the process of finalising a UK Fuel Poverty Strategy which seeks to eradicate fuel poverty amongst certain defined vulnerable groups by 2011, with a commitment to provide a remedy for other households in fuel poverty within a further 5 year period. It will be important to ensure that the boarder policy review is consistent with this objective. Clearly any increases in energy prices in the short to medium term will increase the numbers affected by fuel poverty, unless offset by measures to increase household incomes of the poorest and/or a significant scaling up

¹ NEA includes in the definition of fuel poverty all those households who would be required to spend in excess of 10% of their household income (net of all housing costs) on energy to ensure health and comfort.

of programmes to eliminate the problem by investment in heating and insulation improvements in the dwellings they live in. Similarly, in the longer term increased energy prices could cause the re-emergence of a problem which was thought to have been overcome. The policy review will need to confront the challenge of striking a balance between security and diversity of energy supply, environmental impacts of energy use and affordability of energy bills. In doing so it should be acknowledged that any recommendations will need to take account of social policy implications.

3. NEA considers that reducing demand for energy via improvements to the energy efficiency standards of the housing stock should be a key feature of energy policy for the next 50 years. The UK's housing stock, particularly that occupied by low-income households, has very poor levels of energy efficiency and offers significant scope for improvement. Significant improvements are possible by utilising current technology and within realistic simple payback periods, even at current energy prices. It has been estimated that savings of up to 60% are theoretically possible with existing technologies and the EST have estimated that a 20% improvement in energy efficiency is achievable by 2010. Improving the energy efficiency of the housing stock can therefore make a considerable impact in reducing energy demand from the domestic sector.
4. Experience suggests, however, that this degree of improvement will not be achieved without some form of intervention in the market, certainly given current energy prices. The paradox of seeking to improve energy efficiency in the housing sector is that for those households who have the capital to make the necessary investment, fuel bills represent such a

small proportion of their income as to make the savings not worth the effort. By contrast low income households who would benefit significantly from reduced fuel bills and/or increased comfort, do not have the funds to invest in the necessary improvements. Significant financial incentives will be necessary to encourage even better-off households to undertake the necessary improvements. This approach was used successfully by the Homes Insulation Scheme, which prompted a significant take-up of loft insulation during the 1970s and 80s. The grants covered 66% of the cost of insulation for all households, with 90% grants available to those on low incomes.

Financial incentives at an appropriate level should be provided to encourage households to undertake the cost effective energy efficiency improvements.

5. Improving the energy efficiency standards of the UK's housing stock is a key element in reducing demand from the housing sector. Whilst national and local energy efficiency programmes can help, more concerted action will be needed to make energy efficiency a key factor in more general housing policies and programmes. This will include:

Building Regulations: Increasing the energy efficiency standards in the Building Regulations will ensure reduced energy demand from new build and properties which undergo significant alteration or adaptation.

However, as the proportion of newly-built property is so small, this will have only a limited impact on the overall level of energy demand from the sector. It will be important to ensure that the standards contained within the Regulations apply as widely as possible across the existing housing stock. This can be done by requiring the whole of the building to be brought up to Building Regulations standard following any repair and improvement work which requires Building Regulations approval.

Repair and Improvement Policies: A significant proportion of the UK housing stock is in poor general condition. The 1996 English House Conditions Survey estimated that over 1 million properties were unfit for human habitation. Many of these properties also have poor energy efficiency standards. In many cases it would not be possible or economic to undertake energy efficiency improvements without first tackling the general repairs and improvement required. It is therefore vital to integrate energy efficiency improvements with more general housing repair and improvement policies if the potential to reduce energy demand in the sector is to be realised.

Housing Health and Fitness Rating: A key tool in improving both general housing quality and energy efficiency standards, particularly in the private rented sector, is the New Housing Health and Fitness Rating in England and the other fitness standards in the other countries of the UK. It is important to ensure that the energy efficiency standards are sufficiently robust to ensure real improvements. It is also vital to ensure that these standards are enforced by local authorities and that funding is available to assist with the more general repair and improvement work.

Under-occupation: An important factor in fuel poverty is under-occupation of dwellings by low-income, mainly pensioner, households. Pensioner households, often occupying the family home, find it impossible to heat the home adequately on limited incomes. More affluent households in this position also contribute to over-consumption of energy by heating unoccupied parts of their homes. Although some of these households will doubtless wish to stay in their current homes, others might move if suitably sized properties were available. A supply of new energy efficient properties of a suitable size could significantly reduce the energy demand from pensioner households. This has important implications for policies to provide new housing.

Housing Renewal: It should also be recognised that there are significant numbers of properties which cannot be made energy efficient at an economic cost. Replacing such properties with new, energy efficient housing could also make a significant contribution to the reduction of demand for energy from the housing sector. Once again new housing provision must take account of this need for replacement if we are to maximise the potential to reduce energy demand from the housing sector.

Energy efficiency should be a key element of housing policy, if the potential to reduce energy demand from the sector is to be realised.

6. NEA believes that renewable energy sources can make significant contributions to the sustainability and diversity of UK energy supply. Renewable energy also offers the potential to provide solutions to fuel poverty, particularly for rural properties not connected to the mains gas network and other difficult or expensive to improve properties. The renewable energy market is generally under-developed in the UK, and as a consequence there are a number of barriers to the wider application of such sources of energy supply, including:
 - high cost, due to the early stage of technical development and lack of economies of scale;
 - lack of consumer knowledge and confidence;
 - absence of an infrastructure to support these technologies, for example lack of or underdevelopment of repair and maintenance

services.

To overcome these barriers it is necessary to stimulate investment in these technologies to increase demand and hence stimulate both further development and economies of scale. Creating a critical mass of the relevant technologies should also increase public awareness and confidence and stimulate the development of the required support infrastructures. The recently announced increase in Government support for renewable energy is welcome, although NEA believes this should be expanded if renewable targets are to be met. Renewable energy should also be seen as a key component of the UK Fuel Poverty Strategy.

7. Responsibility for aspects of energy policy is currently split between a number of different Government departments, principally DEFRA and DTI. Whilst this should not, in itself, prevent a co-ordinated approach to energy policy, the necessary inter-departmental liaison and communication does make this more difficult to achieve. NEA can see advantages in one Cabinet Minister having a clear remit to co-ordinate the various aspects of energy policy.

Overall co-ordination of the UK Energy Policy should be the clear responsibility of one Cabinet Minister.

8. Finally, NEA would draw attention to the current consultation on the social and environmental guidance which the Government will issue to the industry regulator. Given that this is intended to be in place for a 5 year period it will be important that it is informed by the conclusions of the PIU review. The regulator plays a key role in implementing Government policies on energy generation and supply and it will be essential to ensure that this guidance is unequivocal about expectations.