



## *Action for Warm Homes*

**National Energy Action's Northern Ireland  
response to CFD Implementation in NI –  
Strategic issues Discussion Paper**

**May 2015**

National Energy Action Northern Ireland (NEA NI), the leading national fuel poverty charity, works to ensure energy is affordable for disadvantaged energy consumers. As such we welcome the opportunity to respond to this consultation from the Department of Enterprise, Trade and Investment (DETI).

The latest House Condition Survey showed that in 2011, 42 per cent of households in Northern Ireland were in fuel poverty. This is one of the highest rates in Northern Europe and is three times as high as the level in England and nearly double the rate in Scotland and Wales. It is therefore imperative that we do all we can to mitigate the upward pressure that our energy policy is having across all households in Northern Ireland but in particular those most vulnerable.

It is well recognised that higher energy prices have a disproportionate impact on low-income households. Currently, final consumer energy bills are currently made up of range of factors. Final energy bills include wholesale energy commodity costs, transmission and distribution network costs, metering and other supply costs, supplier margins, VAT and the impacts of social, energy and climate change mitigation policies. In recent years, wholesale commodity prices have been the principal reason for the extent of recent domestic price rises, however, the EU Commission has also stated recently that rises in prices have also been driven by increases in taxes and levies which are recovered from energy bills to fund programmes instead of being funded out of direct taxation.

Of key importance to this consultation is the recognition that a levy on bills will be required to fund this policy which is likely to hit those least able to pay hardest. A more equitable way to fund this policy would be through public funding which is less regressive than levies in this respect.

We also recognise the acute impact that the current approach of lifting levies from electricity is having (and will increasingly have) on households reliant on electric heating. We estimate that 25,000 households in Northern Ireland are reliant on Economy 7 heating. Additionally people in fuel poverty tend to have higher than average electricity usage as they tend to use secondary heating sources such as electric heaters to keep warm, mainly due to the fact that they cannot afford oil for their central heating system. This fact was evidenced by our recent door to door project carried out in West Belfast.

We therefore, like our GB partner's, recommend that if Government consider introducing this policy that a "protected block of consumption" on bills is exempt from these levies.

On the 29th July 2014 NEA welcomed the Energy and Climate Change Committee's report into Energy Prices, Profits and Poverty. The report, which gathered evidence from a range of experts including NEA, highlights many of the key risks with the current or planned approach to energy policy within the UK. The Committee report reiterated the points made above and also noted that further adequate and proportionate assistance to low income vulnerable energy consumers is needed. Improved insulation and heating standards are seen as the most rational and sustainable means of ensuring affordable warmth. Poor housing standards are responsible for the impaired physical and psychological health of millions of UK households. The links between low indoor temperature and poor health have been well understood for many years. Cold homes increase the likelihood, repetition and the severity of respiratory and cardiovascular illnesses. The links between dampness and mould growth on asthma and allergies are also well known and understood. There is also some evidence that a cold home impacts on poor mental health, low self-esteem, educational performance and social isolation.

Whilst NEA recognises that the purpose of the consultation is not to introduce alternative policies for fuel poor households, within this response NEA calls on DETI to:

- i. Acknowledge and address concerns that the proposal to exempt large industrial users from the policy contradicts the principle that the polluter should pay
- ii. Recognise that the existing proposals will impose new and as yet unknown additional costs to low-income vulnerable consumers and will increase the aggregate and individual fuel poverty gap.
- iii. Therefore commit to undertaking a full and honest appraisal of the degree of detriment which will accrue to different types of consumers as a direct result of this proposal, and in particular:
  - a. Investigate the increase an exemption from the costs of Contracts for Difference (CFDs) will have on the aggregate and individual fuel poverty gap.
  - b. Investigate the increase in indicative costs to other energy consumers beyond 2020 as the CFD mechanism and the proposed exemption are likely to run over longer time frames and the costs of the CFD are likely to increase beyond 2020.
  - c. Investigate the likely increase of health related costs to provide for a more accurate counterfactual if this policy was to be introduced
  - d. Investigate the likely increase of fuel debt and how this may reduce expenditure on other essential goods and reduces spending in the local economy if this policy was to be introduced.
  - e. Recognise the increasing use of levies on bills to fund energy and climate change policies is likely to hit hardest those least able to pay and that this risk and the impact of these proposals (and pass through of additional policy costs) raised above can be mitigated by using public funding which is less regressive than levies in this respect.

- f. Introduce a “protected block of consumption” on bills exempt from levies, as proposed by the UK Fuel Poverty Advisory Group, Consumer Futures and NEA.
- g. Work to undertake its own analysis, similar to Cambridge Econometrics and Verco’s research, which investigates how energy efficiency programmes can be effective ways to stimulate the economy – compared to likely alternatives like cutting VAT, reducing fuel duty or investing in capital infrastructure projects such as building roads or new train transport routes.

NEA notes the current risk that many of the poorest and most vulnerable households may currently benefit least from existing energy policies and more and more of their money is likely to leave their pockets to pay for the costs of the Governments electricity market reforms. As well as impacting on the health and wellbeing of these householders directly, this has the potential to increase fuel debt and drain the economy within poorer communities.

A recent research by Verco and Cambridge Econometrics evaluated the environmental and economic stimulus of investing in energy efficiency. Their report challenges the assumption that we cannot afford to tackle fuel poverty. It argues that there is a triple win available when homes are warmer, greater energy efficiency and economic growth if we can use carbon taxes revenue to benefit consumers, and fuel poor households in particular. The report notes that over the next 15 years £63 billion will be added to consumer energy bills through the carbon floor price applied in GB and EU Emissions Trading System (ETS). While Northern Ireland is exempt from the carbon floor tax we still contribute significantly to these taxes. If this resource was directed toward a major programme to improve the energy efficiency of homes we could make homes warmer, more affordable to heat and take a major step toward our legally binding carbon reduction whilst tackling fuel poverty. This is the approach being taken by the French, the German and other EU Governments.

While many of the issues are addressed in the text above we have given specific responses to the questions below.

## **Questions**

### **1. The impact on the renewables industry in NI in the absence of a local renewable electricity target.**

No comment

### **2. If it matters that there is no guaranteed level of renewable deployment and economic benefit in NI (and indeed a possibility of very limited deployment of new renewable projects here) as long as the power sector is being decarbonised at least cost across the UK.**

We believe that it most certainly matters that there is no guaranteed level of renewable deployment and economic benefit in NI. The Northern Ireland consumer will be paying almost £75 per annum for this policy and yet receiving no gain. It is totally unacceptable that they this should happen for reasons outlined above.

### **3. Potential regulatory impacts in the absence of a NI renewable electricity target.**

The Northern Ireland Authority for Utility Regulation (NIAUR) and DETI's primary duty is to protect customers, all other duties come second. It is therefore paramount that this duty is fundamental to all aspects of policy. A NI renewable target, while we can understand would be an important

driver, if introduced should not bring about any undue pressure which in turn could put upward pressure on domestic customer bills.

**4. The ability of NI generators to compete in CFD auctions.**

No comment

**5. The implications of the principle that NI consumers should continue to contribute to the cost of power sector decarbonisation across the UK.**

Fuel poverty is experienced by 42% of all households in Northern Ireland and is significantly higher here than across the rest of the UK. The best way to tackle fuel poverty is through improving energy efficiency including insulation and heating standards. This is the most rational and sustainable way to ensuring affordable warmth.

The issue of decarbonisation should be tackled by introducing a properly resourced energy efficiency strategy with targets. Alongside reducing carbon emissions, this would tackle, fuel poverty, create jobs and economic growth, reduce pressure on the health service and improve energy security. We therefore call on the Department to bring forth an energy efficiency strategy and introduce an Energy Efficiency Obligation which could replace the Northern Ireland Sustainable Programme (NISEP) or indeed extend the NISEP to meet the targets and bring about the step change required to meet carbon reduction targets.

**6. The implications of the likely increased costs to consumers to pay for decarbonisation as a result of the CFD scheme.**

The implications of the likely increased costs to consumers will be to deepen the level of fuel poverty for many thousands of households and indeed plunge more people into fuel poverty.

People in fuel poverty also tend to use more electricity than others as they tend to use secondary heating appliances such as electric fires. Lifting this levy from electricity bills will therefore put disproportionate pressure on the fuel poor. As well as that we estimate that there are circa 25,000 households using Economy 7 storage heaters. These households will also be disproportionately impacted upon.

**7. The acceptability of reducing costs to consumers by, for example, not implementing the CFD scheme and thereby not supporting new renewables projects post 2017.**

We call on DETI to carry out a Cost Benefit Analysis to compare and contrast all options available. Could we go it alone and put our efforts into the aforementioned energy efficiency strategy with a much reduced contribution from the Northern Ireland consumer and a similar principle established as that of the current NISEP, with a ring fence for fuel poverty? What would the implications be of joining with Republic of Ireland and working within the Single Electricity Market (SEM)?

What we will emphatically state is that we see no benefit for the Northern Ireland customer accruing from this cost and the consequences will add to an increase in fuel poverty which is totally unacceptable for Northern Ireland.



**8. The impact on investor confidence of not being part of a UK wide scheme.**

No comment.

These comments and suggestions are made respectfully with the intention of ensuring that the fuel poor are represented and their needs advocated for in this challenging time now and in the years ahead.

We look forward to continuing to work with you as together we endeavour to bring affordable warmth to all the people of the Northern Ireland.

**Response submitted by:**

Ms Pat Austin  
Director  
National Energy Action NI  
66 Upper Church Lane  
Belfast  
BT1 4QL

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