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## Social Market Foundation, Citizens Advice and Public First workshop

## The future of energy price support policies after the price cap: Workshop 4

This workshop was the fourth of a series as part of a joint SMF, Citizens Advice and Public First project on the future of energy price support policies after the price cap. The workshop was hosted on Wednesday 27 July and attended by energy stakeholders, including suppliers, charities, and academics. This note summarises key findings and observations from the discussion, which was held under the Chatham House rule.

The first two workshops (Tuesday 19 July and Thursday 21 July) reached a general consensus based on first principles that long-term price support should be provided through a targeted social tariff funded through general taxation. The third workshop (Monday 25 July) tested how the design of a social tariff would embody these principles.

The aim of the fourth workshop was to explore how long-term price support could be delivered in conjunction with wider market reforms including demand reduction, decarbonisation, and the Review of Electricity Market Arrangements (REMA).

Points of discussion and agreement:

**Improving the energy efficiency of the UK's housing stock is the long-term solution to energy poverty.** Participants agreed that price support alone does not tackle one of the root causes of energy poverty in the UK – our poorly insulated, leaky houses. A long-term strategy needs to be built on installing energy-efficiency measures.

**Support for energy-efficiency should consider broader targeting than price support.** Previous workshops reached a consensus that price support should be targeted at low-income and vulnerable households. In comparison, participants agreed that the targeting and support for insulation should be broader. This is due to multiple factors that underpin the current retrofit challenge – the need to improve the general housing stock means that higher-income households can still face significant costs; the fragmented approach of government policy means that there is an imperfect relationship between fuel-poor households and the quality of their homes; and, unambitious regulatory standards in the private rented sector means that renters live in the highest proportion of non-decent homes.

**In line with the broader targeting, policymakers should consider varied levels of support.** Participants agreed that the poorest households should not have to make capital contributions toward energy efficiency measures, including ancillary costs, such as loft clearance costs. Those who do not qualify for existing support may still find the cost of improving their energy efficiency to be unaffordable, particularly in the ongoing cost of living crisis. As such, they may benefit from tapered support rather than the current binary approach. There may also be a greater role for the UK Infrastructure Bank to play in supporting financing models that reduce the upfront costs. This also applies to landlords, who could be encouraged to improve their stock through both carrots and sticks, such as updated minimum EPC standards with a reasonable cost cap on improvements.

**Increasing comfort should be the priority outcome of energy-efficiency policy.** Insulation policy and support could be targeted at the highest-emitting homes, energy poverty, and/or the absolute size of energy bills to drive decarbonisation, living standards, and affordability respectively. Participants agreed on prioritising energy poverty and living

standards due to the wider health benefits of improving comfort. Policymakers should exercise caution with a carbon-savings approach, as many households will ration heating to their consumption (and emissions) may in fact increase with better insulation in the short term.**Local authorities (LAs) are well placed to identify need and deliver schemes.** The success of the ECO programme demonstrates how LAs are best suited to identifying need and adapting their definitions of need for their local area. This is demonstrated through the ECO flex model which allows LAs discretion in deciding eligibility beyond the criteria of means-tested benefits. As well as this, LAs are able to deliver upgrades in zones or street-by-street. Some participants agreed that this was the best method for delivering energy-efficiency infrastructure at scale. One participant highlighted that provisions should be in place to avoid a postcode lottery of delivery. Another participant suggested that due to the fragmented approach of energy-efficiency policy, homes in close proximity can still widely vary in standards – this may make local delivery approaches more challenging.

**Lessons from ECO highlight the need for long-term policy certainty and limited ministerial intervention.** Participants were in agreement that inconsistet energy-efficiency policy for the wider market has diminished confidence in investment and has caused disruptions in the supply chain. By contrast, the general consensus is that ECO (which is targeted at low-income households) has been a success. Participants highlighted potential reasons for this, which should serve as lessons for designing new insulation policy.

First, ECO is not funded through general taxation, so it is less subject to politically-driven decision-making on fiscal policy. Participants agreed that on-bill funding can be regressive, but there may be a lesson here for committing to funding that cannot be easily removed or cut at fiscal events. This raises questions as to whether an independent body should be mandated to oversee the delivery of a long-term energy efficiency strategy and delivery.

Second, ECO has long-term funding – the most recent iteration of the policy (ECO4) covers a four-year period to 2026. This provides certainty for the supply chain to invest in skills and develop an establishedworkforce. The Green Homes Grant demonstrates how short-term funding does not enable enough capacity to be built into the supply chain.

Third, ECO has evolved rather than been replaced by 'new' policies. ECO began in 2013 and has since been through four iterations to deliver for energy poor households. Participants recognised that the scheme is not perfect, but it has worked through challenges to build institutional knowledge and supply chains. For the wider market, participants highlighted how policies (Green New Deal and Green Homes Grant) have failed by trying to create something 'new', rather than building on 'what works'.

**Lessons could be learned from Wales on improving advice.** Demand reduction is a broader part of energy-efficiency that will be necessary for all households, not just the energy-poor. One participant indicated that England's advice provision is disjointed in comparison to Wales. As such, there may be a role for central government to play in setting out an energy advice strategy with provision for all households and tailored advice where necessary.

**It is unclear how quickly and effectively REMA could enable new pricing mechanisms that would pass on the benefits of cheap renewable energy to consumers.** Over the long-term, participants agreed that the lower marginal price of renewables should be passed onto consumers by way of lower energy bills. However, one participant raised a concern that policymakers may move quickly on seizing this opportunity and design a mechanism

without full understanding of the externalities it could create. Policymakers should thus act with caution to avoid introducing mechanisms that may worsen market conditions.

In the short-term, there are many practical elements of REMA which will require further analysis and consultation to address. Participants provided their views on REMA's three key mechanisms for the retail market: time of use pricing, locational signals, and a decoupling of polluting prices and renewable prices.

There was a general consensus of support for the incoming half-hourly settlement. This would allow suppliers to design time of use tariffs that could enable consumers to take advantage of when power is cheapest. This raises questions about whether the price cap should be updated to be time of use. Participants were sceptical of how this would be effectively implemented across the country and how vulnerable consumers may respond. Although, there may be lessons to learn from the time of use price cap currently implemented in Spain.

Participants were sceptical of how far demand-side locational pricing would drive behaviour change. Instead, there were concerns about creating a postcode lottery for households based on proximity to generation sites.

Participants were in support of the separation of polluting costs from renewable costs to pass on cost-savings to consumers. However, the design of such a mechanism is complex and requires further analysis and consultation. Policymakers should consider whether the design of a social tariff could be drawn from the lower-cost price bucket.

To learn more about this project, submit evidence or participate in future events, contact us at **energy.bills@smf.co.uk**.