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1922 Backbench Committee on Business, Energy and Industrial Strategy

INQUIRY:

How can government support consumers and businesses to reduce their energy bills over the short term?

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Setting the Scene

Britain's energy trilemma is once more in the headlines – the challenge of getting bills down, keeping the lights on, and keeping up the Net Zero transition.

There was clear acknowledgement from all Committee Members on the importance of taking action on the demand side to tackle the cost of living crisis in the immediate term, with the need to establish stronger domestic energy security in the longer term, to lower costs and increase tax revenue.

The stark reality facing consumers, businesses and the wider industry was set out to Members by a number of witnesses. An estimated four million households are expected to be in fuel poverty this year, with tough choices facing many families. The dramatic rise in prices will have a knock on effect for energy and other utility companies, who will see an increase in bad debts amongst customers. The NHS will also see a rise in poorer health outcomes as a result of people living in cold homes.

It was unanimously the view of Members that the current dramatic rise in energy bills means that every consumer will be open to new ideas about how to manage their own energy demand and supply. There is, therefore, a clear opportunity to capture the public imagination ahead of next winter, in a number of practical ways.

Background

Over three meetings on Wednesday 23rd March, Monday 28th March and Wednesday 30th March 2022, the 1922 Backbench Committee on Business, Energy and Industrial Strategy held its first inquiry. The question it sought to address is how government can support consumers and businesses to reduce their energy bills over the short term – specifically before next winter and during the remainder of this parliament. The focus of discussion was primarily on demand side solutions as these can be implemented swiftly, but proposals for simplifying access to new energy resources were also discussed. The meetings were open to all backbench Conservative MPs, and the Committee invited a number of energy, industry and business experts to provide evidence.

Each session of the Committee was attended by a range of Parliamentarians representing a variety of views within the Parliamentary party across a variety of intakes.

“I am grateful to the committee for working hard and at pace to provide timely suggestions to tackle the energy crisis.”

Rt Hon. Sir John Redwood MP
1922 Committee
Liaison for Backbench Committees





“Many constituents are looking for quick wins to reduce their energy costs and clear advice must be given over the next few months if it is to make a difference.”

Policy Proposals

1. Trusted Advice and Public Information - quick wins

1.1. Government could require energy suppliers to review/improve ease of access to existing education/incentive schemes designed to inform/support consumers about energy efficiency opportunities. The voluntary sector, (e.g. the Citizens' Advice Bureau, energy charities) could be supported to target the most fuel poor with clear advice about available schemes. (As per arrangements put in place in 2015 when CAB supported government to communicate new Pensions freedoms).

1.2. Government could require energy suppliers to launch a new campaign to promote clear advice for consumers on benefits of insulation and the different types available for different homes, with clarity on the 'kitemark' system to establish trust in installers.

1.3. Working through CAB and voluntary sector, government could develop clear messaging on 'self help' measures that would save money, such as:

1.3.1. Turning off radiators in unused rooms/taking appliances off standby.

1.3.2. Rationalising workplace arrangements to minimise energy bills between home and work.

1.3.3. Reducing pressure to hot water taps to avoid unnecessary heating costs e.g. when washing up.

1.3.4. Reducing the radiator setting on gas boilers to between 55 and 65 degrees to optimise energy output (this could reduce energy usage by up to 15% with no impact on the warmth of the radiators).

1.4. Government could develop new campaign with FSB to promote guidance for microbusinesses that details support and advice to help with energy costs.

2. Demand Side

2.1. Smart meters are potentially a significant cost saving innovation. A combination of stronger public messaging on the advantage of smart meters plus pressure from OFGEM on energy companies to bring forward smart tariffs should enable consumers to actively lower the costs of their consumption.

2.1.1. Members observed that tightening regulation on energy efficiency in new housebuilding would be seen as 'good regulation', and popular with the public. Whilst building more homes is a top priority, it seems clear that there is support from the public in improving the energy efficiency of all new buildings. This would require bringing forward the future homes standard to 2023/2024.

2.1.2. Government could review carbon offsetting regulations/schemes to enable investment in UK-based energy demand reduction projects (as a short term alternative to e.g. planting trees).

2.1.3. Government should review how the current Energy Price Cap operates. Today, customers are seeing cost changes at each cap setting date and are being charged the cost of carry by energy suppliers between cap fixing dates. Smoothing changes could be more manageable for consumers.

2.1.4. Government could review the methods currently used to identify and support the fuel poor. The impact assessment for eco 4 states that search costs to find eligible households could cost as much as £140 million.

2.1.5. Business bills - Government could cap the sometimes dramatic increases in standing charges for businesses, and allow them to challenge decisions.



3. Supply Side

3.1. A key proposal from the committee is that government could create a new, permissive planning regime for all renewable schemes and any shale gas extraction schemes where a majority of residents, on a local referendum, are willing to support them in return for free/highly subsidised energy or a share of revenues to leave it open for a flexible negotiation. No community or landowner should have new schemes forced upon them, but members believe there are good incentives available that could result in a more realistic and permissive approach to new developments.

3.2. Government could evaluate the costs and benefits of the legal requirement in Scotland and Wales to separate 100% of food waste for the purpose of energy generation. Could this be beneficial if applied in England?

3.3. Government could review green hydrogen rules to consider allowing more than 0.1% to be put into the grid to reduce reliance on overseas gas.

3.4. Through the ESO, Government could trial a parallel wholesale energy market based on renewables, so that gas is not always the marginal provider.

4. Speeding Up

4.1. Government could review timing of payments of grants for green business investments. The Committee was told that grants are needed before summer factory shutdown to allow work to install green measures to take place whilst many factories are shut down. Currently, most grants are paid in September which delays energy efficiency improvements to the following year.

4.2. Government could consider whether heat pump installation under the new grant scheme can be brought forward before the winter. Consider whether other measures could improve the supply chain and speed up installations.

4.3. Government could review regulation/incentives to bring forward those renewables projects that already have planning permission.

4.4. Government could bring forward the existing plan to move to 'half hourly pricing' thereby empowering consumers to choose to use electricity when it is cheaper, as well as reducing pressure on the grid at peak times.

4.5. Government could launch a review of the existing Eco Scheme and other requirements on energy suppliers to bring forward energy bill reduction measures such as insulation, heat pumps etc.

4.6. Government could consider incentives to accelerate the move to an 'all in one' energy system, e.g. so that electric cars can charge overnight at cheap rate and provide power for house and vehicle. (Note: average large tv screen is approx 60 watts vs circa 4,000 watts for an electric car.)



5. New Measures

5.1. BEIS should consider establishing (through the British Infrastructure Bank) a medium term (5-7 years), non-subsidised loan scheme for households/businesses that allows them to take up new energy saving/efficiency measures without a large initial outlay.

5.2. Government could consider a new requirement on social/large private landlords to achieve EPC C within two years.

5.3. Government could consider regulating to make all new white goods 'smart' (e.g. a washing machine that switches on when demand is low).

5.4. A key concern about retrofitting in homes is that it can be very intrusive. Government could consider incentives to retrofit while a house is empty e.g. a second home, during probate, during sale.

5.5. Government could regulate to ensure that any credit built up with energy suppliers should be repaid at regular intervals to support businesses and households with their bills.

5.6. Government could consider a requirement on builders of new homes to provide information to the homeowner, on request, of all energy saving/insulation measures that were installed. This 'Right to Know' should apply for at least 15 years from build, so that subsequent purchasers can avoid duplicating effort.

6. New Spending

The Committee is not actively promoting new government spending, but observed that the following options were put forward during the evidence sessions:

6.1. If Treasury were to meet calls for taking the Green Levy off energy bills, this should be restricted to the most fuel poor households. Note: this would have the effect of passing these costs through general taxation on to other households who will be already paying their own green levy.

6.2. In order to bring forward insulation at a faster rate, government could consider increasing the budget for ECO 4.

6.3. Micro Businesses are not currently receiving the same support with energy bills as consumers (unless operating from home). They do not benefit from either the £150 Council Tax rebate, or £200 energy bills discount, and the Committee heard the case for this to be reviewed. Ofgem's strategic review states that microbusinesses should be treated the same as consumers for energy bills.

6.4. For business - Government could consider stronger R&D incentives (e.g. to offset the cost of a new kiln for an energy intensive ceramics business) to encourage investment in fuel efficient capital equipment.

7. Combatting Criminal Activity

7.1. The Committee was told of an Ofgem investigation underway because of possible market manipulation in the balancing market. Any investigation should be urgently completed and acted on before winter bills. During lockdown, the cost of grid balancing was up to 40% higher than ESO expected, amounting to several hundred of millions of extra cost.

8. New fossil fuel projects

8.1. The view of many Members was that maximising production from the North Sea basin, supporting Cambo and going ahead with the Cumbrian coal mine would all be sensible measures at the present time, and not incompatible with our net zero ambitions.

Trusted advice and education

Members agreed that improved advice and education is one of the most realistic and effective ways to help consumers cut their energy bills before the winter. Given the spiraling cost of energy, many consumers are looking for 'quick wins' to reduce their energy costs without the need to install new equipment, or reduce the warmth of their home.

Guidance

Government messaging throughout the COVID-19 pandemic was highly effective and delivered complex messages to the public and businesses. This provides a model for future government communications, particularly when the issue captures the public mood.

A clear government communication campaign highlighting the support available for households to help with energy bills, energy efficiency tips, and guidance on installing further green measures could help to provide consumers with practical advice which can cut bills for consumers within the next six months ahead of winter.

Similarly, clear advice for small and micro businesses is essential. Many organisations feel they are up against a 'tidal wave' of communication on the support available, without the resources to be able to understand it, or take advantage of the schemes which are designed to support them.

Practical changes

In 2021, Octopus Energy trialled a reduction in radiator temperature with 140,000 customers, who took part voluntarily. During boiler installation, suppliers typically set the radiator setting at between 65 and 75 degrees, despite radiators being designed to operate at between 55 and 65 degrees.

This leads to a significant waste of energy, with typically no benefit for consumers. During the trial, 94% of consumers said they would recommend this reduction in the radiator setting to others, and Octopus Energy estimated the change leads to a 15% reduction in energy usage.

Protecting consumers

There is a need for fair, transparent and accredited advice for consumers when making decisions around insulating their homes. Members raised constituents' concerns that they will be 'ripped off' by cowboy builders or installation companies who will not give a fair analysis of the work that needs to be undertaken or the costs involved. This is already amplified due to the lack of installers, highlighted through the Green Homes Grant, which saw huge demand without enough suppliers to fit new measures.

There is a need for the 'kitemark' accreditation scheme (Trustmark), to be widely promoted, in order to provide reassurance to consumers that installers are only undertaking work which actually needs to be done, and that they are properly trained in fitting green measures such as insulation or solar panels.

Retail Market Reform

The Committee agreed that there is a need for retail market reform in the energy sector, particularly in the way equipment and green home measures are provided to consumers.

Generally, the current model of installing green home measures, such as heat pumps, is separate from energy providers. A number of committee witnesses suggested that providers need to offer these products directly to consumers, through an extension of the 'British Gas Model', whereby the energy supplier both installs the boiler, and supplies the energy.

We are already beginning to see this reform at the margins, with Octopus Energy investing over £7m (\$10m) in a heat pump research and development facility in Slough, with a commitment to making heat pumps as cheap as gas boilers. However, further investment in the market and a 'nudge' towards suppliers, such as through subsidy, is required in order to reform the retail market and ensure it is delivering for consumers.

Home insulation

There was broad agreement across the Committee that home insulation is an affordable and timely measure which can be implemented within six months to cut the costs of energy bills for consumers. It was noted that one of the key challenges facing the government grant package is the cost of identifying the most fuel poor homes in need of insulation.

There was agreement that further taxpayer investment in insulation – although expensive – would permanently reduce demand for gas in the medium term, and cut individual consumer bills within the next six months. It was recognised by Members that any increase in spending by government would have to be recouped elsewhere. Members considered whether a non subsidised government loan scheme for householders could facilitate more insulation. This would have the benefit of reducing overall demand on the grid, which ultimately helps all consumers.

5 million homes are currently without cavity wall insulation, and 8 million homes are without loft insulation. Only one third of the benefits of home insulation comes from cavity wall insulation, and there are significant benefits from both loft and window insulation to cut bills for consumers.

The Committee also discussed the need to make it easier for owners of new build homes to be able to find out which home insulation measures are installed within their own property, perhaps through a ‘right to know’ scheme, meaning homeowners can contact their property developer for a set number of years after the purchase of the property to find out which home insulation measures are already installed.

Cost and subsidies

Energy costs are now one of the biggest issues facing consumers, and whilst energy saving measures such as solar panels and cavity wall insulation have the potential to significantly reduce bills, the initial costs are too expensive for many. This risks leaving people who are unable to afford their energy bills stuck in homes they are unable to afford to heat.

It is currently the government’s ambition to move all homes to EPC C by 2035, with the cost estimated by the Department for Business, Energy and Industrial Strategy (BEIS) between £35 billion and £65 billion over 13 years, or between £3 billion and £5 billion per year. Once all homes are at EPC C, this would cut demand for gas by around 20%, with a significant commensurate cut in gas bills. This would allow a significant reduction in imported gas, and Members considered whether government could bring forward the transition.

Government subsidies

There was general agreement amongst Members that the ‘stop start’ approach to energy efficiency schemes by Government has meant consumers are often left confused, and the true benefit of schemes has not been felt. Schemes open and close on a regular basis – the Green Homes Grant, for example, closed to applications after just seven months.

There was also concern amongst Members that even with significant government subsidy, the cost of installation is too high. It was noted that consumers should be able to ‘stagger’ the cost of home insulation, rather than the ‘all or nothing’ approach currently operated under government subsidy schemes.

There is a need for consistency, affordability and longevity which could be offered by Government through a non-subsidised medium term loan scheme, allowing consumers to spread the cost of energy efficient measures over a series of years. Under previous heavily subsidised schemes, the initial outlay to most consumers was still too high, and there is a need for consumers to be able to manage the cost over multiple years.

The energy intensive industry sector raised specific concerns regarding the timing of government grants, with many schemes only available in September, despite the most appropriate time for installation being July, during the annual ‘factory fortnight’ when production ceases.

Developing a domestic market

It is clear that there is a need to develop the market for green energy saving installation in the UK, and for the manufacturing of solar panels. This was highlighted by the Green Homes Grant, where consumer demand for installation was significantly greater than the number of qualified installers available. There was general agreement amongst Members that there is a need to promote development of a competitive market for green home measures – this would have the result of reducing initial outlay costs for consumers.

There is also a need to create a stronger domestic market for the manufacturing of green technologies, such as solar panels. Several Members described importing solar panels from China as ‘greenwashing of the worst kind’ and which needs to be addressed, both to reduce carbon emissions, and reduce costs for consumers through a domestic manufacturing market.

Green levies

The Committee had a general discussion around moving green levies from household energy bills and onto general taxation. This was suggested by a number of witnesses at the committee as a means to start to reduce bills in the immediate term.

There was, however, broad agreement from Members that it is not clear which form of taxation green levies would be added to, and would just shift the problem from high energy bills towards higher taxation.

Incentives for industry

During evidence sessions with industry representatives, it became clear that there is a need for the government to provide stronger incentives for energy intensive industries to upgrade to greener alternatives, such as through a significant R&D offset for investment in green technologies. The Chancellor has stated his intention to review this area for Autumn Budget, and Members urge him to look specifically at this type of incentive for business.

Regulation

Regulation, often in tandem with subsidies, is seen as a key way to drive uptake of new energy efficient measures. There was strong support from many Members to make the installation of new solar panels compulsory on many new buildings, including local authority housing, as a key driver for assisting the move to net-zero.

There is a need for the right balance between 'nudging' people and business into action through regulation, and causing undue complexity which can lead to logjam. When BEIS introduced regulations on basic loft insulation requiring air flow measurement in 2014, the Committee heard there was a significant drop in uptake, and costs have increased since by up to 300%.

Energy Efficiency

It was agreed that the best time to upgrade homes with energy efficiency measures is when they stand empty between sales. Some Members suggested that one of the reasons people choose not to upgrade their homes is because of the intrusiveness (stress and hassle) around installation. A proposal was put

forward that homes should only be allowed to be bought if they meet Energy Performance Certificate (EPC) C, or above, as this would ensure upgrades were completed at the optimum time, creating a market for installation and helping to reduce the cost. Members disagreed, however, fearing that this could condemn millions of properties to being unable to be sold, leaving those unable to afford the required improvements to their home also unable to afford to heat and power it.

On coal, several Members argued that the government should push ahead with plans for the Cumbrian Coal Mine, suggesting that they should make the case that producing coal in the UK will lead to lower carbon emissions nationally. There was a general agreement by Members that the government should not look to reopen coal fired power stations.

Energy Pricing

The Committee agreed that reform to pricing is essential to provide more consumer choice and reduce bills.

Half hourly pricing

The energy market currently only offers a small number of 'smart tariffs' for consumers, giving a tailored price dependent on when and how electricity is used. A move to half hourly pricing would mean consumers could choose to pay a lower price for their energy by undertaking 'energy intensive activities', such as washing clothes, when the price is cheapest.

Local Energy Pricing

The introduction of local energy pricing, based on a system of local supply and demand could significantly reduce demand on overseas gas as well as encourage consumers to make decisions based on their local environment. A local pricing system would, for example, offer consumers cheaper electricity if they charge their electric car when it is sunny in Cornwall, or do the washing when it is windy in Northumberland.

This system is already successfully in place throughout the world, such as in California. The scheme would have the benefit of offering consumers cheaper electricity based upon local weather conditions, and encourage energy intensive industry to take advantage of local pricing by building factories in energy rich areas, creating more local jobs in the UK.

Local energy generation

The Committee had several discussions around the politics of domestic energy extraction, and the need for community buy in. The general consensus of Members was that there is a need to create a more direct link between local communities and the benefit of production.

There was strong support from Members for a proposal that developers should provide free or highly discounted energy to communities who, on a local referendum, consent to new projects in their area such as wind, solar, and shale gas extraction. Government could consider a faster planning regime for such projects to get off the ground quickly.

“Providing free energy to communities has the advantage of smoothing the planning process for new energy sources, making it quicker and easier to get new production off the ground.”

Reducing grid balancing costs

Balancing costs, which aim to balance supply and demand, have risen sharply in the UK in recent months, with data published in November 2021 by National Grid ESO showing a 48% rise year on year.

The Committee heard concerns from a number of witnesses around the balancing market, particularly the risk of market manipulation. National Grid ESO are conducting a review into the balancing market, whilst Ofgem are also conducting a more formal investigation into whether energy suppliers are sending misleading signals about how much energy they will supply in order to make a profit.

It is clear there is a need for a tighter regulation of the balancing market, and to ensure all participants are aware of their obligations under regulations.

Smart Meters

Smart Meters have the potential to offer significant reductions in demand side energy usage, and provide consumers with timely information about their energy consumption and associated costs.

There is general agreement that the first generation of smart meters (SMETS1) was unsuccessful, and as such the public’s opinion of smart meters has been badly damaged. SMETS2 Smart Meters were hailed as much better, allowing interoperability between energy suppliers and communication with other ‘smart’ household accessories, but like the original specification they suffer from a lack of trusted information available to consumers on the benefits of their use.

The case was made that Smart Meters have the potential to offer significant demand side energy reduction, and that therefore, the government should seek to carry out a public messaging ‘nudge’ campaign to improve the brand of Smart Meters and explain to consumers how their use can help with energy costs.

One of the key problems in encouraging smart meter uptake has been the lack of consumer benefits, and only a relatively small number of smart energy tariffs available. It is clear that there is a need to move to half hourly pricing across the UK, offering consumers the option of cheaper pricing if they use electricity when demand is lower.

Alongside smart tariffs, the second generation of Smart Meters (SMETS2) has the potential to combine technology with half hourly pricing to further reduce energy bills. It was suggested the government could quickly pass secondary legislation requiring new ‘smart white goods’ that can communicate with the grid so, for example, a ‘smart’ washing machine could wait until an off-peak or low demand period before running its cycle. This would reduce cost to the consumer and mitigate spikes in energy usage across the grid.

“Providing free energy to communities has the advantage of smoothing the planning process for new energy sources, making it quicker and easier to get new production off the ground.”

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And the following Parliamentarians who contributed to some or all of our sessions:

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