

The Rt. Hon. Amber Rudd MP
Parliamentary Under Secretary of State
Department of Energy and Climate Change
3 Whitehall Place London
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7 October 2014

Re. Fuel Poverty Strategy Consultation

Dear Minister,

I am writing to you in response to the Government's fuel poverty strategy consultation. As you know, the Committee on Climate Change has a statutory obligation to consider the likely impacts of carbon budgets on fuel poverty.

We welcome the Government's commitment to a new fuel poverty target and strategy for England. In particular, we support the proposals for basing a new statutory target on energy performance, as this would address both fuel poverty and carbon budget aims.

We agree with the Government that improving energy efficiency is important both for meeting carbon budgets and reducing fuel poverty. We have recently commissioned new fuel poverty analysis using DECC's National Household Model which leads us to the following conclusions relevant to the consultation:

1. The measures needed to meet carbon budgets can also significantly reduce the number of households living in fuel poverty provided they are targeted effectively.

We have previously said that carbon budgets have a broadly neutral impact on fuel poverty levels (i.e. higher electricity prices due to power sector decarbonisation will be offset by the savings from energy efficiency improvements).

Our new analysis suggests that if the measures likely to be required for meeting the fourth carbon budget were targeted specifically at the fuel poor, fuel poverty levels could be significantly reduced. There is potential for these measures to achieve an average of at least Energy Performance Certificate (EPC) level D in fuel poor homes by 2030. Achieving EPC C by 2030 (or even earlier by 2025) is feasible and would be likely to require some additional

measures such as efficient storage heaters and further draught proofing (more detail is provided in the annex).

Successful targeting of measures is not easy to achieve (e.g. due to data availability, people moving in and out of fuel poverty, and householders not always being willing or able to respond to offers of help) but would greatly improve the achievement of both fuel poverty and carbon targets at least cost. Evidence from Scotland and Wales suggests that area-based approaches (focusing on low-income areas more broadly, which will also capture households likely to become fuel poor in the future) and local authority involvement can be effective.

2. Targets should be staged in order to avoid multiple interventions. Given the inherent difficulty of targeting, and to improve cost-effectiveness, it would be sensible to take forward ‘whole house’ approaches to get properties to the required final EPC standard in one treatment. This has implications for the proposed interim milestones - these should be set as a certain number/proportion of fuel poor homes improved straight to Band C by 2020/25, as opposed to aiming at interim EPC targets for all properties of E and D.

3. Current ambition and funding commitments are inadequate for meeting carbon budgets and further funding is likely to be needed to meet the proposed EPC targets. We have previously advised (2014 Progress report to Parliament) that the Energy Company Obligation (ECO) is currently not ambitious enough to achieve carbon budgets. We have also recommended a longer-term funding commitment for the Renewable Heat Incentive (RHI).

Our new analysis suggests that achieving EPC C across all fuel poor homes in England by 2030 would incur capital costs of at least £1.2bn per annum (not taking into account any additional delivery costs). This exceeds the current ECO funding envelope of around £0.8bn for the whole of Great Britain (with an indicative share of this for England of less than £0.7bn), not all of which is currently aimed at fuel poor or low-income households.

We have also looked at the cost of achieving EPC C 5 years earlier – this would increase the annual cost to at least £1.8bn. A more ambitious target of EPC B by 2030 would cost an average of £1.6bn per annum (see annex).

New funding sources will therefore be needed to both to meet carbon budgets and address fuel poverty (e.g. from infrastructure funding).

4. Passing the costs of reducing fuel poverty on to energy bill payers results in an increase in both the number of fuel poor and depth of fuel poverty (especially for those households already fuel poor and not receiving energy efficiency measures).

Reducing fuel poverty is a social issue and may therefore more naturally be paid through general taxation (as is the case with the additional fuel poverty programmes that operate in Scotland and Wales). There are no carbon budget considerations to argue against such a shift.

5. Low-carbon heat can play an important role in reducing fuel poverty but needs fuel-poor tailored incentives. There is a need to align action on fuel poverty with the Government's heat strategy. This should be done now and not just in the longer term, as suggested in the consultation.

Almost 600,000 fuel poor homes do not have gas mains heating. These are often the households with the deepest level of fuel poverty. Low-carbon heat measures, coupled with insulation, would need to play an important role in achieving the proposed EPC. It is important to find ways to promote uptake of low-carbon heat options in these households, e.g. by ring-fencing part of the RHI to provide a capital cost support element to fuel poor households.

More details on the findings and implications of our new fuel poverty analysis are provided in the attached annex. I would be very happy to discuss these issues with you if this would be helpful.

Yours sincerely



Lord Deben
Chair, Committee on Climate Change