Consumer Bills and Energy Policy

Dr Louise Strong, Senior Policy Advisor, Which? 15th March 2012
Overview

- uncertainties around cost and bill impacts, now and in the future - role of consumers

- how usefully impacts on prices and bills are presented

- where additional analysis and data on impacts is needed
Which?

- not-for-profit organisation, funded by subscribers – 1.3million subscriptions
- campaign on behalf of all consumers
- energy - key policy issue since last autumn
- not an environmental NGO
- important homes are energy efficient and the energy system sustainable
- crucial this is achieved cost effectively
- not anti or pro renewables, nuclear, or gas
Energy prices - highest concern for costs on day to day essentials outside the individual’s control

How worried are you, if at all, about each of the following in the current economic climate? Base 2094, November 2011

- Energy prices: 91%
- Fuel prices: 91%
- Food prices: 87%
- Future tax levels: 79%
- Public spending cuts: 76%
- The quality of public services: 71%
- Me or my partner losing our jobs: 70%
- Mortgage rates: 65%
- Level of household debt: 62%
- The security of my savings: 62%
- The value of my house falling: 58%
- Having my home repossessed: 56%
- Net worried (fairly, very and extremely worried)

Which? works for you
The impact of climate policies up to now

- Recent electricity price increases largely due to rise in wholesale gas prices, not policies to support wind.
- Committee on Climate Change - around £75 of typical dual fuel bill is low carbon policy costs: £45 energy efficiency and £30 decarbonising.
- Virtually all amount for energy efficiency goes on CERT.
- Don't actually know how much CERT is currently costing.
- Figures from DECC (£38) are based on assumptions about delivery costs, impacts of various measures in terms of carbon saved, and how these are passed on to consumers.
- DECC proposing energy companies report delivery costs for ECO.
- We want to see this *and* scrutiny by Ofgem of how cost are passed through by suppliers.
Going forwards - the uncertainties

- Significant uncertainty around future gas prices and costs of low carbon technologies - somewhat inevitable there’s heated debate on price impacts
- Several key policies to bring on investment in new generation and energy efficiency, e.g. CfDs and Green Deal, not fully developed
- CCC - useful and clear ‘best estimate’ up to 2020, suggesting climate change policies will add a further £110 to household energy bills by 2020, (£190 in total). Contingent on declining levels of support for renewables, in line with their renewables report last May, and CfD contracts being set accordingly
- Even more complicated beyond 2020: key areas of uncertainty - will modelled costs for FOAK and NOAK nuclear pull through? how much will the cost of offshore wind fall?
Baselines and points of comparison should be appropriate

- DECC not as clear as it could be - e.g. Energy White Paper (July 2011) and choice of baseline bill for modelling impact of EMR policies
- includes CPS - but this is a key pillar of EMR, it’s not BAU
- assumes a 10% reduction in demand, but if this does take place, it won’t be as a result of EMR

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**Figure 23: Snap-shot of average annual domestic consumer electricity bills**

<table>
<thead>
<tr>
<th>Consumer bills – domestic</th>
<th>Baseline bill</th>
<th>FIT C/fD (Strategic Reserve)</th>
<th>FIT C/fD (Reliability Markets)</th>
<th>PF/T (Strategic Reserve)</th>
<th>PF/T (Reliability Markets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>£485</td>
<td>£485</td>
<td>£485</td>
<td>£485</td>
<td>£485</td>
</tr>
<tr>
<td>2030</td>
<td>£682</td>
<td>£643</td>
<td>£642</td>
<td>£647</td>
<td>£674</td>
</tr>
<tr>
<td>Average 2010-30</td>
<td>£538</td>
<td>£532</td>
<td>£527</td>
<td>£538</td>
<td>£544</td>
</tr>
</tbody>
</table>

**Figure 24: Impact of Electricity Market Reform packages on average annual electricity bills for domestic consumers (real 2009 £), relative to an estimated baseline bill**

<table>
<thead>
<tr>
<th>Consumer bills – domestic</th>
<th>Baseline bill</th>
<th>FIT C/fD (Strategic Reserve)</th>
<th>FIT C/fD (Reliability Markets)</th>
<th>PF/T (Strategic Reserve)</th>
<th>PF/T (Reliability Markets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2015</td>
<td>£468</td>
<td>–</td>
<td>–</td>
<td>0% (£1)</td>
<td>0% (£1)</td>
</tr>
<tr>
<td>2016-2020</td>
<td>£486</td>
<td>-1% (-£4)</td>
<td>0% (-£1)</td>
<td>1% (£4)</td>
<td>2% (£11)</td>
</tr>
<tr>
<td>2021-2025</td>
<td>£560</td>
<td>0% (£2)</td>
<td>-3% (-£16)</td>
<td>0% (£2)</td>
<td>1% (£3)</td>
</tr>
<tr>
<td>2026-30</td>
<td>£648</td>
<td>-4% (-£24)</td>
<td>-4% (-£27)</td>
<td>-1% (-£4)</td>
<td>2% (£10)</td>
</tr>
<tr>
<td>Average 2010-30</td>
<td>£538</td>
<td>-1% (-£6)</td>
<td>-2% (-£10)</td>
<td>0% (1)</td>
<td>1% (£6)</td>
</tr>
</tbody>
</table>

Note: negative figures show a reduction in bills, while positive figures show an increase in bills, relative to the baseline.
Headline messages from DECC often conflate costs and savings of policies to encourage energy efficiency and generation

By 2020, households are estimated to be spending, on average, 7% less to heat and power their homes compared to what they would be paying in the absence of policies

Chris Huhne, Nov 2011
Driving a wedge between prices and bills - consumer behaviour is a crucial variable

Rollout of smart meters
- expected to cost £11.3bn and deliver a £23 per household annual saving by 2020
- expected saving and cost-benefit case predicated on consumer behaviour change
- estimates consumers will save £4.60bn through reduced energy consumption - significant uncertainty

Green Deal
- DECC modelling assumes 2.6 million households will take up Green Deal by 2022
- our recent focus group research suggests there’s little appetite to take up the policy as currently constructed
Consumer behaviour important in relation to products policy impact

- Massive chunk of the modelled savings in 2020 - £158 saving on average bills
- Modelled savings include impact of labelling and energy efficiency standards
- DECC, DEFRA and CLG together need to produce a succinct and up-to-date assessment for stakeholders to review - role for new EEDO?

Chart 9: Estimated impact of energy and climate change policies on an average household energy bill in 2020 (including VAT)

New Which? tool - 8 products

Tumble dryers: Tumble dryer energy costs

Introduction

Tumble dryers

Lifetime energy costs tool

The cost of running a tumble dryer over its lifetime really adds up. While tumble dryers are a lot more efficient than a decade ago, few are achieving the official A-rating and many can cost over £100 a year to run.

This tool reveals what a tumble dryer will cost to run over its lifetime (tumble dryers are generally quite reliable and should last well over 6 years) as well how much it costs to buy.

We’ve calculated annual energy costs for around 89 tumble dryers and found that they vary between £38, for gas dryers, and £131 per year for the least efficient electric models.

Use the year slider to see just how much the most efficient tumble dryer and the biggest energy guzzlers would cost to run over their lifetime.

You can also enter the values into the calculator if you want to see how your selected tumble dryer compares to the best and worst.

http://www.which.co.uk/home-and-garden/laundry-and-cleaning-guides/tumble-dryer-energy-costs/
More distributional analysis needed to better understand impact on different types of household

- DECC November 2011 report - looked at impact across income deciles and different household compositions

- More distributional analysis needed to understand impact on different types of household, in particularly across tenure, property-type and method of heating

- Around 562,000 households in GB have on-peak electric heating as their primary space heating, with a further 8% using storage heaters