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Dear Angus

FOLLOW UP ON ENERGY AND CLIMATE CHANGE COMMITTEE EVIDENCE HEARING

I am writing to provide the Energy and Climate Change Committee with answers to some of the questions raised when I provided evidence on Home Energy Efficiency to the Committee on 19 January and as per Josh Rhodes' email of 21 January.

Inter-Ministerial Group on Carbon

As you will be aware, the Secretary of State for Energy and Climate Change wrote to you on this issue on 28th January.

Zero carbon homes

The regulatory costs and estimated carbon savings from the zero carbon homes policy and its carbon off-setting scheme, 'allowable solutions', has been the subject of three detailed impact assessments published by the Department of Communities and Local Government in May 2011, August 2013 and March 2015 (see links below).

Estimates of the carbon savings from the zero carbon homes policy in England were also included in the Updated Emissions Projections published by the Department of Energy and Climate Change on 29 October 2014. The update of those projections, published on 18 November 2015, took into account the decisions not to proceed with both the zero carbon allowable solutions carbon offsetting scheme for homes and the 2016 increase in the on-site energy efficiency standards.

The European Directive on the Energy Performance of Buildings requires that Member States, including the UK, ensure that all new buildings are 'nearly zero energy' from 31 December 2020. The Government has already transposed that requirement into Part L (Conservation of Fuel & Power) of the Building Regulations. As part of this obligation, the UK is also required to report to the Commission by the end June 2017 on whether the energy efficiency standards in the building regulations are 'cost-optimal' using the Commission's methodology. The Department of Communities and Local Government will

commence the analytical work to underpin that report in the coming months. Internet addresses for impact assessments:

Zero carbon homes: impact assessment – published 11 May 2011 available at :
www.gov.uk/government/uploads/system/uploads/attachment_data/file/6288/1905485.pdf

Next steps to zero carbon homes – Allowable Solutions: impact assessment – published 2 August 2011 available at:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/226340/130801_Allowable_Solutions_Impact_Assessment_for_consultation.pdf

Enabling power for allowable solutions: final impact assessment – published 27 March 2015 available at:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/418722/150327_Bill_enabling_power_for_allowable_solutions_IA_FINAL.pdf

Bill Savings from 2015 Spending Review

You asked for the methodologies used to calculate the impact on projected household energy bills of the new domestic energy efficiency supplier obligation and used for calculating the Spending Review's impact on average household energy bills. My officials have written a detailed note on this matter, which I have attached as Annex A.

List of Communities who have benefited from the Green Deal Communities Fund

Please find a full list of communities in Annex B.

I trust that this letter answers your questions.

Yours sincerely,



LORD BOURNE

Note to ECCC on bill savings from 2015 Spending Review

Issue

1. Following Lord Bourne's appearance before the Energy and Climate Change Committee (ECCC) as part of their home energy efficiency inquiry, the committee has asked for a follow-up note on the methodology used to calculate the impact on projected average household energy bills of the new domestic energy efficiency supplier obligation and, more generally, the whole of the Spending Review 2015 (see Annex A for the relevant extract).

Summary

2. For simplicity, this paper focuses on the impacts in 2020/21, but the methodology is similar for all years. All figures quoted are nominal for 2020/21, consistent with the Spending Review presentation, unless otherwise stated.
3. For the 2015 Spending Review, DECC analysis estimated that there would be a net saving equivalent to £35 in 2020/21 on average household dual fuel bills from the combination of the following three policy actions:
 - a) A replacement to the existing Energy Company Obligation (ECO) from April 2017 with a new supplier obligation which will be cheaper than the previously published ambition for the same period. **Assuming a saving in 2020/21 of around £800m in projected ECO costs recovered over household energy customers only, equivalent to a household dual fuel bill saving in 2020/21 of £34;**
 - b) Proposed cost controls for the Renewables Obligation (RO) and Feed in Tariffs scheme (FITs). **A saving in 2020/21 of an estimated £600m in projected RO and FITs spend recovered over all electricity customers, equivalent to a household electricity bill saving in 2020/21 of £6;** and
 - c) Government is seeking to switch from paying compensation to introducing exemptions for Electricity Intensive Industries (EIs) from up to 85% of the indirect costs incurred on their electricity bills from the Renewables Obligation and Feed in Tariff schemes. This will be subject to consultation and state aid approval. This will ensure that EIs have long-term certainty and remain competitive. **An estimated cost in 2020/21 of £500m – if we assume these costs are recovered over all other (non-exempt) electricity customers, it would be equivalent to an additional £5 on an average household electricity bill in 2020/21.**

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4. The remainder of this note will cover the high-level methodology for estimating the individual bill impacts from each of these items in turn.

Further detail on the methodology

5. In order to assess the impact of policy costs on average energy bills, the analysis assumes that costs are spread evenly across relevant projected energy sales in the UK. In other words, for policies which only apply to the household sector (such as ECO), we expect the costs to be recovered from household customers only, whereas for policies which apply to all electricity supply more generally (such as the RO and FITs) we expect costs to be recovered from all electricity sales, of which household customers account for around a third.
6. The impacts presented in the Spending Review 2015, therefore are driven by changes in the projected policy costs expected to be recovered from energy customers. No assessment was made of the changes in energy demand (in particular, through changes in the energy efficiency delivered from reforming ECO). Further detail on the policy cost assumptions underpinning the Spending Review results are set out below. All totals are rounded to the nearest £100m.

a) Reforms to ECO

7. Analysis of the impact on bills from the reforms to ECO are as compared to the previous government's ambition for a longer-term policy associated with an annual cost to suppliers from 1 April 2017 of around £1.3bn on average per year (in 2011 prices), equivalent to £1.5bn nominal spend in 2020/21.¹
8. As part of the reforms to ECO set out in Spending Review 2015, a new supplier obligation will replace ECO from 1 April 2017. While the details of this new supplier obligation remain under development, for the purposes of the Spending Review, analysis assumed an annual cost to suppliers of around £600m (in 2013 prices), or nominal spend in 2020/21 of approximately £700m, equivalent to a nominal saving in 2020/21 of around **£800m** against the previous ambition.
9. Half of these savings are assumed to be incurred across all household gas sales, and the other half across all household electricity sales.

b) Cost controls for RO and FITs

10. Last year, the government announced a set of measures aimed at controlling the future costs of the RO and FITs. The impact assessments accompanying these proposals set out the estimated societal impacts from these proposals, including estimates of the savings in Levy Control Framework (LCF) spend compared to a

¹ Consistent with the scenario set out in Annex H of the final impact assessment on 'The future of the energy company obligation', available online at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384404/Prices_Bills_report_2014.pdf.

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“do nothing” scenario in which the costs of LCF were expected to exceed the level of the cap:²

- Closure of the RO to onshore wind is estimated to deliver savings in LCF spend in 2020/21 of £0m to £270m, with a central estimate of £20m (in 2011/12 prices), equivalent to a nominal saving in 2020/21 of around £20m.³
- Closure of the RO to solar PV projects at 5MW and below is estimated to deliver savings in LCF spend in 2020/21 of £60m to £100m, with a central estimate of £80m (in 2011/12 prices), equivalent to a nominal saving in 2020/21 of around £90m.⁴
- Changes to FITs are estimated to deliver savings in LCF spend in 2020/21 of £380m to £430m, with a central estimate of £410m (in 2011/12 prices), equivalent to a nominal saving in 2020/21 of around £480m.⁵

11. This approximate **£600m**⁶ saving in 2020/21 is assumed to be recovered across all electricity sales, of which households account for around a third.

c) EII exemption for RO and FITs

12. Spending Review 2015 also announced an exemption for eligible EIIs from the indirect costs of the RO and FITs on their electricity bills. Consistent with State Aid guidelines, this means that eligible EIIs will not face up to 85% of the cost of RO and FITs on their electricity bills, with the exempted costs expected to be recovered from all other electricity users. This will ensure that EIIs have long-term certainty and remain competitive. DECC and BIS are working together to define the scope of the exemption and the mechanisms to deliver it, on which we expect to consult in due course.

13. Consistent with the eligibility criteria set out by BIS,⁷ and subject to the number of eligible applications, this could imply up to around 20TWh, or around 7%, of total electricity sales would not face 85% of the cost of the RO and FITs on bills.

14. Projections published by the OBR in November 2015 estimated total RO and FITs spend in 2020/21 of £8.45bn,⁸ accounting for the estimated reduction in RO

² The LCF cap is £7.6bn in 2020/21 and, as at November 2015, the projected cost of the LCF in 2020/21 had reached £9.0bn in the absence of these measures (all figures in 2011/12 prices).

³ Figure unchanged when converted from real 2011/12 to nominal and rounded to the nearest £10m. The relevant impact assessment is available online at: <http://www.parliament.uk/documents/impact-assessments/IA15-007F.pdf>.

⁴ The relevant impact assessment is available online at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486093/2015-12-15_-_5MW_solar_RO_closure_Government_Response_IA_CLEARED_CLEAN_FINAL.pdf.

⁵ The relevant impact assessment is available online at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486084/IA_-_FITs_consultation_response_with_Annexes_-_FINAL_SIGNED.pdf.

⁶ £500m in 2011/12 prices.

⁷ See the consultation on eligibility, available online at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/359649/BIS_14_995-EIIs_-_Relief_from_the_indirect_costs_of_Renewables_-_consultation_on_eligibility_revised_doc.pdf.

⁸ <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2015-12-10/19617>.

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and FITs spend set out in the previous section, this implies that an exemption would cost around **£500m** in 2020/21. While the exact scope and mechanism of the exemption have yet to be decided, for the purpose of the Spending Review analysis, it was assumed that the costs would be recovered across all non-exempt electricity sales.

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Annex A: 2015 Spending review extract on average household energy bills

Extract from p. 45 of 'Spending review and autumn statement 2015'.⁹

Lower household bills

1.139 As well as higher wages and pensions, and lower taxes, the government is **implementing a package of measures to reduce the projected cost of green policies on the average household energy bill by £30 from 2017**. The bulk of these savings will come from reforms to the current Energy Company Obligation (ECO) scheme. This will be **replaced from April 2017 with a new cheaper domestic energy efficiency supplier obligation which will run for 5 years**. The new scheme will upgrade the energy efficiency of over 200,000 homes per year, saving those homes up to £300 off their annual energy bill, tackling the root cause of fuel poverty and delivering the government's commitment to help 1 million more homes this parliament.

1.140. The government has consulted on changes to the Renewables Obligation and Feed in Tariffs scheme and **will shortly publish a response to the consultations, detailing how to implement cost control on these schemes**. If the proposals are implemented, **this will save the average household around £6 and the average small business user £500 on their energy bills in 2020-21**.¹⁰

Table 1.8: Spending Review impact on average household energy bills

Policy	Impact on projected household energy bills (nominal), £				
	2016-17	2017-18	2018-19	2019-20	2020-21
New domestic energy efficiency supplier obligation	-	-32	-33	-33	-34
Proposed reforms to the RO and FITs	-	-2	-4	-5	-6
Energy Intensive Industry exemption from the cost of RO and FITs, providing certainty to these businesses (see paragraph 1.203)	-	+5	+5	+5	+5
Total bill impact per year:	-	-30	-32	-33	-35

Source: DECC analysis.

Figures may not sum due to rounding.

⁹ Available online at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf.

¹⁰ As defined in 'Estimated impacts of energy and climate change policies on energy prices and bills', DECC, 2014.

ANNEX B

List of all the Local Authorities awarded Green Deal Communities funding in March 2014	
Lead Council	Councils involved in project
East Hampshire District Council	Havant Borough Council
Dartford Borough Council	Kent County Council Sevenoaks District Council Dover District Council
Leeds City Council	City of Bradford Metropolitan District Council City of Wakefield Metropolitan District Council City of York Council Barnsley Metropolitan Borough Council The Borough Council of Calderdale Harrogate Borough Council Kirklees Council Selby District Council Craven District Council
Bristol City Council	-
Nottingham City Council	-
London Borough of Hillingdon	<i>HAVE WITHDRAWN FROM GDC</i>
Telford & Wrekin Council	-
Worcestershire County Council	Bromsgrove & Redditch Council Malvern Hills District Council Worcester City Council Wyre Forest District Council Wychavon District Council
London Borough of Lewisham	London Borough of Bromley London Borough of Bexley
Broadland District Council	South Norfolk Council Norwich City Council
Woking Borough Council	Epsom & Ewell Borough Council Elmbridge Borough Council Guildford Borough Council Spelthorne Borough Council Waverley Borough Council Reigate & Banstead Borough Council Mole Valley District Council Tandridge District Council Runnymede Borough Council Surrey Heath Borough Council Woking Borough Council
Plymouth City Council	-
South Buckinghamshire District Council	Aylesbury Vale District Council Buckinghamshire County Council Cherwell District Council Chiltern District Council Cotswold District Council London Borough of Ealing Milton Keynes Council South Oxfordshire District Council Three Rivers District Council Vale of White Horse District Council Watford Borough Council West Berkshire Council West Oxfordshire District Council Wycombe District Council

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Manchester/ Oldham Metropolitan Borough Council	Bolton Metropolitan Borough Council Bury Metropolitan Borough Council Manchester City Council Rochdale Metropolitan Borough Council Salford City Council Stockport Metropolitan Borough Council Tameside Metropolitan Borough Council Trafford Metropolitan Borough Council Wigan Metropolitan Borough Council
Ashfield District Council	-
Suffolk County Council	Babergh and Mid Suffolk District Councils Forest Heath District and St Edmundsbury Borough Councils Ipswich Borough Council Suffolk Coastal District Council Waveney District Council
Cambridge City Council	East Cambridgeshire District Council Fenland District Council Huntingdonshire District Council South Cambridgeshire District Council Cambridgeshire County Council
Peterborough	-
London Borough of Haringey	London Borough of Camden London Borough of Enfield London Borough of Waltham Forest London Borough of Islington London Borough of Hackney
Bracknell Forest	-
Eastleigh Borough Council	Portsmouth City Council Gosport Borough Council Southampton City Council
Nuneaton & Bedworth Borough Council	North Warwickshire Borough Council
London Borough of Harrow	-
Bath & North East Somerset Council	-