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Date:	27 October
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To: **GREGORY BARKER**

CC: See below

MEETING WITH [S40(2)] ERA ON 1 NOVEMBER AT 12.00PM.

Issue

1. You are due to meet with [S40(2)] ERA on 1 November at 12.00pm. This is a rescheduled meeting – you postponed the meeting due to be held on September 16.

Objectives

2. This introductory meeting is an opportunity for you to learn more about the work that Energy UK and ERA are involved in and to discuss policy development in a number of areas that they will be interested in.

Background

3. The Energy Retail Association (ERA) works to provide a coordinated approach to dealing with the key issues affecting the energy industry and the British consumer. All the main energy suppliers are members of the association - British Gas, EDF Energy, E.ON, RWE npower, Scottish Power and Scottish and Southern Energy.

4. Energy UK works to provide comment and information on the key issues affecting the energy industry working with key trade associations (Association of Electricity Producers, Energy Networks Association, Energy Retail Association, UK Business Council for Sustainable Energy) and with Britain's major household energy suppliers in the Westminster, Holyrood and Cardiff Parliaments.

5. This meeting was originally scheduled for 16 September, but was rescheduled at your request.

6. Charles Hendry met the UKBCSE (which is closely involved with both Energy UK and ERA) on 13 September. The energy industry has managed the agendas of these meetings: the meeting with Charles Hendry focused on Electricity Market and Planning Reform; and, your meeting is to focus on Green Deal Finance and Energy Billing policy, with some reference to consumer support policies.

7. The Secretary of State hosted the first dinner meeting of the Gas and Electricity Supply Forum on Wednesday 15 September where topics for discussion included the 2050 pathways analysis, electricity market reform and the Green Deal.

Handling

8. The meeting is due to last 45 minutes, with ERA and Energy UK suggesting the following agenda:

1. Social Price Support and Fuel Poverty

2. **Green Deal**
3. **Future Energy Company Obligation**
4. **Energy Billing**

9. There will be a particular focus on Green Deal finance and Energy Billing; officials to attend the meeting to be confirmed as required.

10. Fuller briefing is provided in the annexes, however, key considerations for each agenda item are:

- **Social Price Support and Fuel Poverty**

As part of the SR we announced that suppliers will be required to spend £250m in 2011/12 rising to £310m in 2014/15. Suppliers are being informed individually of the profile of this spending for each year up to 2014/15 (250m, 275m, 300m, and 310m). We will be consulting later this year on the details of the scheme.

- **Green Deal**

[S35(1)(a)] Proposed that this is Redacted under Section 35(1) - (Formulation of Government Policy)

- **Future Energy Company Obligation**

[S35(1)(a)] Proposed that this is Redacted under Section 35(1) - (Formulation of Government Policy)

- **Energy Billing**

ERA and Energy UK have produced a paper on this agenda item (included at Annex E). We and ERA agree that there should be better information on tariffs and consumption on bills via voluntary means if possible, [S35(1)(a)] Proposed that this is Redacted under Section 35(1) - (Formulation of Government Policy)

Annex A	Briefing on agenda items	
	2. Social Price Support and Fuel Poverty	page 4
	2. Green Deal Overview	page 8
	3. Future Energy Company Obligation	page 10
	4. Energy Billing – consumer information	page 12
Annex B	About Energy UK and ERA..	page 16
Annex C	Attendee pen pictures	page 18
Annex D	Introductory letter from Energy UK and ERA	page 22
Annex E	Energy UK and ERA briefing on Energy Billing	page 24

CC:

PS/Gregory Barker
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Simon Virley

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[S40(2)]

1. Social Price Support and Fuel Poverty

Lines to take:

- From April 2011, the **Social Price Support** policy will require energy suppliers to provide financial support with energy bills to more of the most vulnerable fuel poor households. The total level of support under the scheme will be £250m in 2011/12 rising to £310m in 2014/15.
- Customers found through data matching will be a significant part of this, not least due to the success of the pilot Energy Rebate Scheme. [S40(2)] Government is committed to helping those households who are in **fuel poverty**. We recognise the need to help more of the most vulnerable to keep their homes warm at an affordable cost. We are considering the ways in which we can make further progress towards our 2016 fuel poverty target and are committed to doing all that is reasonably practicable to eradicate fuel poverty.

Q&A:

When will you provide more information on who will be eligible to receive support under Social Price Support?

We intend to consult on the detailed policy design, including eligibility, later this year.

Will Warm Front remain open over this winter?

The Warm Front budget for 2010/11 remains unchanged and measures will continue to be delivered throughout the year. The scheme will remain open while resources are available to meet commitments.

How will the eligibility for Warm Front change in view of the reduced budget?

We will work to improve the cost-effectiveness of the Warm Front Scheme by ensuring that Warm Front will be a better targeted programme to help the most vulnerable receive free or subsidised heating and insulation measures. We will be consulting to make sure that the eligibility criteria reflect this.

Why are you setting up a review of the Fuel Poverty target? Is this an attempt to get rid of the target?

The time is right to take a fresh look at the fuel poverty target and definition in the context of our commitment to focus available resources where they will be most effective in tackling the problems underlying fuel poverty. How we define and measure fuel poverty is fundamental to how we design policies and

programmes to best target resources at where they're most needed. We want the current definition and target to be independently reviewed to consider whether they best achieve this.

What will happen when Warm Front closes in 2012 - how will the new supplier obligation work?

The Green Deal is a key element of our policy to improve household energy efficiency. It will help protect people against price rises through greater energy saving, with special support for the most vulnerable.

The new Energy Company Obligation will provide additional funding for the vulnerable and those in hard to treat homes who may need additional support. The Government expects energy companies to play a greater role than under current obligations, to ensure the poorest and most vulnerable can afford to heat their homes adequately. This will include offering a wider range of measures to improve energy performance, such as heating systems.

Key facts and figures:

- Fuel Poverty Statistics, published on 14 October, recorded that in the UK in 2007 there were 4 million fuel poor households and this increased to 4.5 million in 2008.
- In 2007 in England there were 2.8 million fuel poor households and this increased to 3.3 million in 2008. It is estimated that in England the number of households in fuel poverty for 2009 will be around 4.1 million, with a slight reduction in 2010 to 4.0 million.

Background:

Warm Front

- The Scheme is a key part of our policies targeted at complying with our legal obligation to eradicate fuel poverty as far as reasonable practicable by 2016. The funding for this year is secure and we will continue to deliver heating and insulation measures until March 2011 (under the existing 2008-11 spending provision).
- Funding for the Scheme is just over £1.1 billion for the current three year spending period to March 2011, this is broken down to £395m/£369m/£345m in 2008-9 to 2010-11 respectively.
- The Spending Review agreed £110m in 2011/12 and £100m in 2012/13 funding for Warm Front.

Voluntary Agreement to assist vulnerable consumers

Government has a voluntary agreement with the big 6 energy suppliers to provide funding to help vulnerable consumers with their energy bills. This agreement ends in March 2011. Suppliers have agreed to spend an aggregate £100million/£125million/£150million between 2008/9-2010/11.

They spent over £157 million in the first year of this agreement. Ofgem estimated that over 1 million customer accounts benefited from this support. Suppliers have discretion over how to administer this funding - including who receives support, and the type and amount of support they receive. Suppliers' offers include social and discounted tariffs, rebates, energy advice and funding for organisations involved in tackling fuel poverty.

Energy Rebate Scheme

DECC, DWP and the big 6 energy suppliers worked together this year on the Energy Rebate Scheme - enabling the secure matching of benefit data held by DWP with customer data from energy suppliers. This one-year exercise has provided an £80 energy supplier funded rebate on the electricity bills of the poorest pensioners. We are still finalising the details, but at least 205,000 households have received the rebate, worth a total of up to £16.4 million. The Energy Rebate Scheme has shown that data matching can work to target assistance at fuel poor households and has been an opportunity to review the contribution data matching could make to targeting fuel poverty assistance in the future.

2. Green Deal

Lines to take:

- Green Deal finance will not be structured as a conventional loan: the householder will not be liable for the capital sum, only the repayments whilst they live in the property
- The householder signs a statutory declaration binding themselves and future occupiers to make Green Deal payments – if the occupants of the property change, the obligation to pay will pass to the new occupier
- Payments will be collected through energy bills.
- We anticipate Green Deal finance will come from the private sector. We are in discussions with energy companies, retailers and banks about how best to facilitate this.

Q&A

The sums don't add up without a subsidy – will the government be providing one?

We are developing the details of the model to ensure the lowest possible costs for householders, and will regulate to ensure that Green Deal Finance is only offered on packages of measures which are likely to pay back those costs over time.

What if people don't want to take on someone else's loan?

The Green Deal is not a conventional loan; it is a standing charge on a property which is likely to be offset by savings from the energy bills at that household. Those buying or renting a property will be made aware of the arrangement, and can choose not to live at the household if they are reluctant to make the payments – just as people can choose whether or not to live in flats with ground rental charges.

What if someone with a Green Deal moves house?

Householders are only liable for making Green Deal payments that are due whilst they live in a property with a Green Deal in place. If someone else moves in instead, the new householder will start paying the Green Deal payments through their energy bills from the date they move in.

Who will be liable if a consumer defaults on their Green Deal payments?

Customers will be obliged to make Green Deal payments, in the same way they are liable to pay all other parts of their energy bill. Further details regarding liability will be developed in consultation with energy suppliers, finance providers and consumer protection organisations.

Is the government guaranteeing that Green Deal packages will pay for themselves?

No. The savings will depend on energy prices and energy consumption, and these vary over time and by household – so no one can guarantee savings. We will, however, regulate to ensure that only packages of measures which are likely to save more than they cost in a typical property can be funded through a Green Deal Finance arrangement.

Who will be liable to pay the increase if the Green Deal charge makes a bill higher than it was before the renovations?

Green Deal Providers will only be authorised to attach payment obligations to energy bills where these come within the Golden Rule i.e. where expected savings are likely to be higher than costs. Where Green Deal Providers have not followed the regulations in attaching the payment to energy bills, the regulator will take appropriate action.

What protection are you proposing for the consumer in the Green Deal?

We are proposing four levels of protection:

- **Golden rule** that likely bill savings must be larger than payments
- **Accreditation** – only approved measures by accredited installers following accredited assessment
- Green Deal must be **disclosed** to future owners / renters of the property
- Appropriate **consent** must be sought before Green Deal is taken out on a property

Background

We know that many people want to take steps to make their homes more energy efficient but the up-front cost can be prohibitive. The Green Deal will provide energy efficiency improvements at no up-front cost, with consumers paying over the long term (for example, 25 years) through the savings they make on their energy bills.

We announced our intention to put in place the legal framework needed for Green Deal Finance in the Queen's Speech. It will be a key element of our Energy Bill in the first session of this parliament meaning that the full Green Deal is likely to be available by late 2012.

We would like the widest possible range of private, public and voluntary sector organisations to be involved in delivering the Green Deal.

3. Post 2012 Energy Company Obligation

Lines to take:

- Work is underway on the new energy company obligation, as announced in the Annual Energy Statement (AES) earlier this year. This will take over from the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP) at the end of 2012.
- The obligation will run in parallel with and serve to underpin the Green Deal programme. It will focus particularly on those householders (e.g. the poorest and most vulnerable) and those types of property (e.g. the hard to treat) which cannot achieve financial savings without a measure of support.
- Insight and lessons learnt from CERT and CESP, and other relevant schemes, will feed into the design of the future obligation. Keen that we get as much data as possible. Glad you are involved with our evaluation work, and may be looking to you for more detailed and timely reporting information going forward.
- Envisage that subsidy from ECO will need to come together with Green Deal finance to make a seamless offer to the consumer in many cases. How do you see this working in practice? Will your members naturally be looking to partner with multiple Green Deal providers, thus encouraging a diverse Green Deal market?

Q&A

What will the new obligation look like?

The new obligation will not kick in until the current schemes expire at the end of 2012, in parallel with the Green Deal more widely. We will take broad powers in the forthcoming Energy Bill, but the detail will be set out in secondary legislation and the subject of a public consultation exercise which we'd envisage for late 2011.

Will Energy Companies be required to work the Green Deal Providers?

The Green Deal will provide many advantages to energy companies seeking to fulfil an obligation. The Green Deal quality assurance framework will ensure quality remains high and the availability of Green Deal finance will reduce the subsidy required to get measures installed. Therefore we believe it will be in an energy company's best interests to work with GDPs.

Will the ECO be the only scheme for tackling fuel poverty? What does this mean for Warm Front

The Government remains firmly committed to tackling fuel poverty. It is too early to say what the broader policy landscape will look like after 2012 but the ECO will be developed to complement the strategic policy framework. We will know more when we have the outcome of the spending review.

4. Energy Billing – consumer information

Lines to take:

- It is important energy consumers have the information they need to control costs and consumption.
- We would like to achieve this through a voluntary agreement but will legislate if necessary.
- We have stated that energy bills should tell consumers about their supplier's cheapest tariff and how their consumption compares to similar households.

Q&A

Suppliers cheapest tariffs are not available to all consumers as these are often online or direct debit only deals; what's the point of telling consumers about them, when many consumers cannot access them?

Consumers are not yet fully engaged with the market. Only by providing all consumers with the information they need to take control of their household energy costs will we be able to provide a clear 'call to action' or 'nudge' to do so.

'Sign posts' on bills to suppliers websites (or call centres) will best ensure customers can find the right deal for their circumstances?

Sign-posts to more information are, of course, important for consumers, but we need to provide a clear 'call to action' in order to ensure that consumers take these steps.

Consumers will not relate to consumption comparisons as the data we have is not tailored to their home type and lifestyle?

We understand that there are concerns about using benchmarks that are not specifically tailored, and therefore we plan to test the benchmarks with consumers to test how they react to this information, how it should be presented and what would be appropriate messaging. We do expect that consumers will be able to use the information intelligently, and understand the implications of their lifestyle on their consumption patterns.

Why is the Government interfering in Ofgem's remit?

This is a specific area for consideration. Ofgem's role is to protect consumers and regulate the market, this policy is aimed at nudging consumers and encourage them to take control of their energy usage and costs.

Are you going to have a broader look at billing?

Government are specifically interested in nudges, but we are interested in clearer billing and happy to look at any suggestions with Ofgem.

These policies will stifle innovation and competition

We think that a more active market with more switching will lead to better deals for consumers. More engagement from consumers will provide further incentives for suppliers to innovate and compete.

Background

There is a Coalition Programme commitment that energy bills should inform consumers of how to move to the cheapest tariff their supplier offers and how their consumption compares to similar households.

You have agreed that we should test the following proposals for implementation:

Cheapest tariff :

- Suppliers' bills should inform customers of the cheapest tariff available, whether they are on it and how to move to it if not;
- Suppliers should provide a 'forward look' at what customers not on the cheapest tariff would pay over the next twelve months if they changed (they are already required to say what people pay on their existing tariff).

Consumption comparisons

- DECC will design benchmarks based on local area consumption data and will pass these to suppliers. Suppliers will then tell their customers how they are performing against this benchmark.
- DECC and suppliers to work together in the meantime to test customer reactions to identify the best presentational approach.

Stakeholders' key concerns are:

Costs/ feasibility: regulating to require suppliers to tell customers on bills how much they would save by switching to the cheapest tariff would require extensive and costly changes to suppliers' billing systems (our estimation of the total regulatory burden is £22 million).

Consumer disengagement: Both suppliers and consumer groups are concerned that if customers were given information that is not relevant to their

circumstances they will disengage and the 'nudge' will backfire. (An example of this might be telling an unbanked pre-payment meter customer without internet access he/she would make substantial savings from an online direct debit tariff.)

Evidence and effectiveness: Research by OPower (a successful provider of efficiency and cost information in California) shows that providing consumption and savings information on energy bills has less impact than providing separate statements. Consumer groups and suppliers are concerned that large amounts of information on bills will be ignored.

Annex B

About Energy UK

Energy UK is a new communications unit for the leading gas and electricity companies, currently working with key trade associations (Association of Electricity Producers, Energy Networks Association, Energy Retail Association, UK Business Council for Sustainable Energy) across the sector to provide comment and information on the key issues affecting the energy industry.

Energy UK also works closely with Britain's major household energy suppliers (British Gas, EDF Energy, E.ON, RWE npower, Scottish Power and Scottish and Southern Energy) in the Westminster, Holyrood and Cardiff Parliaments.

About ERA

The **Energy Retail Association** (ERA) was formed in 2003. It works closely with government, NGOs, charities and other organisations in England, Scotland and Wales to ensure a coordinated approach to dealing with the key issues affecting our industry and the British consumer.

All the main energy suppliers, operating in the residential market, in Great Britain are members of the association - British Gas, EDF Energy, E.ON, RWE npower, Scottish Power and Scottish and Southern Energy.

Since its inception, the ERA has ultimately focused on finding ways to continually improve customers' experiences with their electricity and gas suppliers. This means that we lead on issues such as:

- Tackling fuel poverty and protecting vulnerable customers
- Delivering energy efficiency schemes
- Ensuring good sales practice
- Developing hassle-free systems for changing electricity or gas supplier
- Developing industry standards for customer billing
- Preventing debt and disconnections

Dr Gary Felgate recently stepped down as Chief Executive of ERA; his replacement has yet to be appointed.

Annex C
Attendee Pen Pictures
[S40(2)]

Annex D

Introductory letter from Energy UK and ERA

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Greg Barker MP
Minister of State
Department of Energy & Climate Change
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3 June 2010

Dear Minister,

Firstly, may we take this opportunity to congratulate you on your appointment as Minister of State at the Department for Energy and Climate Change. The Energy Retail Association (ERA) and Energy UK warmly welcome your appointment at this crucial time for Britain.

Energy suppliers have been very grateful in the past for the support of you and your party on key issues affecting the industry. The forthcoming Energy Bill will provide a key platform with which to guarantee energy security as well as smooth the transition to a low carbon economy. From policies such as the Green Deal, to the creation of a green investment bank, we very much hope that our organisations can provide you with support and information to develop practical solutions and policies.

Moving towards a more sustainable future whilst at the same time ensuring that energy supplies remain affordable will be priorities for Government and energy suppliers. Working on energy efficiency programmes such as the Carbon Emissions Reduction Target and the Community Energy Savings Programme, and fuel poverty have been core activities for our organisations. For example, the Home Heat Helpline, a freephone phone line for customers who may have difficulties paying their energy bills, is run by the ERA and promoted by Energy UK.

Although Garry Felgate is due to stand down at the end of August, we would both very much welcome a meeting with you in due course to discuss the work we are carrying out, and, of course, to hear your views on these pertinent issues.

Best wishes and congratulations once again.

Yours sincerely,

A handwritten signature in black ink, appearing to be "Garry Felgate", written over a horizontal line.

Garry Felgate
Energy Retail Association

A handwritten signature in black ink, appearing to be "Christine McGourty", written over a horizontal line.

Christine McGourty
Energy UK

Annex D

Energy UK and ERA Energy Bill Briefing

[S35(1)(a)] Proposed that this is redacted under Section 35(1) -
(Formulation of Government Policy) -

**ENERGY
RETAIL
Association**
