

Carl Sargeant AC / AM
Y Gweinidog Cyfoeth Naturiol
Minister for Natural Resources



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref SF/

Alun Ffred Jones AM
Chair of the Environment and Sustainability
Committee
Cardiff Bay
Cardiff
CF99 1NA

February 2015

Dear Alun,

Thank you for your letter regarding the Environment and Sustainability Committee inquiry into fuel poverty and energy efficiency and the request for clarity on a number issues.

Please find attached a response to the queries raised in your letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'CS', written over a light blue horizontal line.

Carl Sargeant AC / AM
Y Gweinidog Cyfoeth Naturiol
Minister for Natural Resources

Response to the inquiry into fuel poverty and energy efficiency in Wales' request for further information.

Fuel Poverty Strategy

A number of stakeholders in their written and oral evidence argued for a review of the Welsh Government's Fuel Poverty Strategy published in 2010 to reflect latest developments and changes in the economic climate.

- We would be grateful if you could set out what consideration has been given by the Welsh Government to a review of the Fuel Poverty Strategy.

Response

The Welsh Government's Fuel Poverty Strategy was published in 2010 and set out the key actions that we would take within our powers to tackle fuel poverty. The approach set out in the Strategy remains valid.

The key actions include providing high quality, well co-ordinated advice and support to help householders reduce their energy bills and maximise their income, providing demand-led and area based programmes to improve the energy efficiency of homes, and targeting these programmes at households most in need and living in the most energy inefficient homes.

We are taking these actions forward through the delivery of our energy efficiency programme. Our focus now is on ensuring that the programme continues to make a real difference to fuel poor households and that we take account of any changes at a UK level to maximise opportunities for Wales.

The Fuel Poverty Strategy was published before the Tackling Poverty Action Plan but we have ensured that our actions to tackle fuel poverty are included in the Plan and that fuel poverty is considered alongside wider action to tackle poverty.

While I have no immediate plans to review the Fuel Poverty Strategy I will keep this under consideration.

Ministerial Advisory Group

Stakeholders also called for the re-instatement of the Ministerial Advisory Group on Fuel Poverty, arguing that the Group had offered an important opportunity for the voluntary sector, consumer rights bodies and energy companies to debate issues and provide robust evidence to underpin Welsh Government strategy. We would be grateful if you could:

- Clarify why the decision was taken to disband the Ministerial Advisory Group on Fuel Poverty;
- Set out whether in light of the evidence the Committee has received you would be willing to re-consider the decision and if so, whether the Welsh Government would consider the different models used currently across the UK and the lessons learnt from them.

Response

The Ministerial Advisory Group on Fuel Poverty (MAGFP) was dissolved by the former Minister for Environment and Sustainable Development in November 2011. The group had been in existence, in a number of formats, for eight years.

The group provided limited advice to the Minister over and above the information already provided by other stakeholders and did not offer additional advice that was not already available elsewhere. The group had limited added value.

The decision to dissolve the group was made after careful consideration and taken in light of the establishment of the Tackling Poverty External Advisory Group (TPEAG) which provides the opportunity to fully align fuel poverty with wider government action to tackle poverty.

The TPEAG is led by an independent Chair and has a representative on fuel poverty. A number of the organisations who were represented on the MAGFP are represented on the TPEAG.

I will not be reinstating the former Ministerial Advisory Group on Fuel Poverty. I believe that action to tackle fuel poverty must be part of wider action across Welsh Government to tackle poverty and I will seek expert advice, when required, from the TPEAG.

Nest and Arbed

All stakeholders commended the Welsh Government's ongoing commitment to funding these schemes but identified some ways in which the schemes could be improved in future.

- Clarify why Nest has reached fewer households than its predecessor scheme.
- Detail whether the development of the Welsh Government's new energy efficiency strategy will:
 - Review the monitoring arrangements for Nest and Arbed to better report on those in fuel poverty before and after measures are installed;
 - Consider more wide-spread use of self-reporting by recipients; and

- Consider the effectiveness of the current schemes in addressing fuel poverty in rural areas and how this could be improved.

Response

Nest has not reached fewer households than its predecessor scheme, HEES. In its first three years, Nest has reached an average of nearly 19,000 households per year, which is consistent with the best performing years of HEES. It should, however, be recognised that Nest and HEES are two very different schemes that provide very different levels of support to different households.

HEES was designed to provide households in receipt of some benefits, and those of elderly householders without a working heating system, with low cost solutions such as boiler repairs, basic insulation and draught proofing, and where necessary, replacement heating systems. In some scheme years, smoke alarms and security measures were also available for elderly householders. Different levels of grant were offered to households, ranging from £500 to £5,000, depending on the applicant's age, circumstances and fuel type. Where the cost of works exceeded the grant the householder was required to fund the difference before works could proceed. Benefit Entitlement Checks (BECs) were offered to applicants who did not meet the eligibility criteria but no system was in place to refer applicants to other advice or support. The eligibility criteria for HEES did not require all households to be on a low income and less than 30 per cent of households receiving improvements under HEES were estimated to be fuel poor.

Nest was designed to provide all households with access to a range of advice and support to reduce their energy bills and maximise their income, including BECs, debt and money management, energy saving advice, energy tariffs and referral for a Warm Homes Discount. In addition, eligible applicants are referred for a package of home energy improvements, which are offered at no cost to the householder. A wider range of heating and insulation measures are available than under HEES, including high cost measures such as Air Source Heat Pumps (ASHPs), Biomass, and External Wall Insulation (EWI). Grant levels are higher with up to £12,000 for an off-gas home, in recognition of the higher costs of improving hard to heat homes, and up to £8,000 for an on-gas home. The eligibility criteria for Nest are designed to focus on low income households living in the most energy inefficient homes, and over 60 per cent of households receiving improvements under Nest are estimated to be fuel poor.

The Welsh Government's proposed new energy efficiency strategy will consider the challenges and opportunities for increasing energy efficiency across all sectors; domestic, business and the public sector. It will consider Welsh Government's role in driving the agenda as well as the role of other organisations, businesses and

households themselves. It will set out our vision and strategic approach but will not go into the detailed operation of individual delivery mechanisms.

However, the operation of Nest and Arbed are kept under review and full evaluations of both programmes are currently in progress. Our Nest and Arbed programmes record the energy efficiency improvements that are made to every property utilising the industry standard rdSAP. However, there are constraints that limit the extent to which we can monitor, on an individual household basis, the precise fuel poverty impact of energy improvements installed under our energy efficiency programmes. These constraints include:

- the difficulties and costs of collating accurate household income and historic usage data for all households,
- the reality that household circumstances including household income can change frequently,
- the frequency of energy price rises,
- the fact that, to varying degrees, residents may use the improvements to raise the comfort and health protection benefits in their homes rather than reducing their outgoings on fuel,
- the cost of conducting widespread monitoring, particularly longitudinal studies, against the benefits to be derived from it, and the consequential impact of such monitoring on households, some of which are particularly vulnerable.

The Arbed 2 evaluation will include contact with a minimum 10 per cent sample of households and carry out a post installation review. This will involve re contacting the households that provided data as part of the initial scheme evaluation to further assess the impact of the energy efficiency measures installed and the advice provided. Not only will this look at energy being saved through more efficient use, but also at the extent to which householders are more comfortable in their home. We will consider the effectiveness of this approach for a sample of households supported and whether it should be used in future actions under our energy efficiency programme.

It is not immediately clear what the Committee is referring to in the question about 'self reporting'; if it is a question about recipients of support reporting on its long term impact, then officials believe that the lack of assurance and unpredictability of such reporting would present challenges.

The current schemes have been effective to date in addressing fuel poverty in rural areas but I will ask officials to keep this under review and examine whether improvements could be made in any future schemes. A key objective of the Nest scheme is to ensure that support is available to households in rural, off-gas areas who face higher energy bills, higher costs to improve the energy efficiency of their

homes, and therefore higher levels of fuel poverty. In recognition of the higher costs faced by these households, Nest provides a higher maximum level of Welsh Government funding for individual rural, off-gas properties (£12,000) than for urban, on-gas properties (£8,000).

Nest is actively targeting eligible households in rural areas and in its first three years of operation over 4,800 of the 13,400 homes improved were located in predominantly rural local authorities. Over 600 of these homes received a package of improvements that included connection to the gas network.

Under our area based schemes we have set criteria for local authorities that prioritise the most disadvantaged areas. Under Arbed 2 we give priority to those low income areas that have a high number of off-gas or hard to treat homes. To date, Arbed 2 has delivered 32 schemes in 19 of the 22 local authorities across Wales. Of these, 7 were off the gas network and 4 had the gas main extended into their community with 482 homes having new connections.

Co-ordination between schemes and delivery bodies

The need for better coordination between Welsh Government Schemes and UK-wide schemes such as the Energy Company Obligation (ECO) was raised by several of the energy companies, the housing associations and NEA Cymru. Housing associations welcomed the opportunities provided by Arbed ECO to blend funding between Welsh Government and UK schemes.

We would be grateful if you could:

- Detail whether the development of the Welsh Government's new energy efficiency strategy will: Review the co-ordination between Welsh Government and UK-wide schemes and how this could be improved;
- Consider the capacity of local authorities to deliver these schemes and how this could be improved; and
- The procurement processes used within the schemes.

Response

The Welsh Government's proposed new energy efficiency strategy will consider the challenges and opportunities for increasing energy efficiency across all sectors; domestic, business and the public sector. It will consider Welsh Government's role in driving the agenda as well as the role of other organisations, businesses and households themselves. It will consider what action Welsh Government can take within the context of wider UK action on energy efficiency and how in general terms we can work alongside UK activity. However, it will not go into the detail of the

operation of individual Wales and UK schemes, particularly as we are likely to see ongoing change to those schemes.

Co-ordination between the Welsh Government and UK wide schemes is kept under review and my officials keep up to date with developments in UK schemes, such as ECO, maintaining regular contact with both the UK Government and the energy companies. The significant changes made by the UK Government to ECO, along with ongoing changes by energy companies to their approach to delivering ECO, have made it challenging, particularly over the past 12 months, to dovetail Welsh Government and UK Government schemes.

Welsh Government has taken a flexible approach and has regular discussions with the scheme managers for both Nest and Arbed on how the schemes can work best alongside UK Government schemes. Changes have been made to Arbed 2, in agreement with the Welsh European Funding Office, to ensure that the scheme can utilise investment from ECO alongside funding from the European Regional Development Fund and Welsh Government. Where Nest is concerned, officials meet monthly and quarterly with the scheme manager, British Gas, and regularly discuss the leveraging of ECO into the scheme.

In line with the Wellbeing of Future Generations Bill, the Welsh Government's energy efficiency programme prioritises not only carbon reduction but tackling poverty and the creation of growth and jobs. The programme places a high priority on delivering multiple benefits, such as jobs, training, community benefits and effective household engagement alongside the delivery of energy efficiency measures in homes. The Arbed delivery model developed by Welsh Government has been particularly successful in this regard. It has been challenging to dovetail our high standards in terms of these requirements with the delivery of ECO, under which the focus is singularly on securing the best rate per tonne of carbon reduction, and which is driven increasingly by a desire on the part of the energy companies to deliver ECO through their own delivery mechanisms, which are unlikely to deliver the wider multiple benefits to communities and their local economies that we know could be achieved in Wales.

In terms of developing the capacity of local authorities, Welsh Government officials have regular round table meetings with local authorities to discuss and plan energy efficiency programmes. The meetings are an open forum where opportunities, ideas and examples of best practice are put forward. The most recent meeting included sessions on the Value Wales Community Benefit Tool, the roll out of smart meters, procurement and the development of the energy efficiency strategy. Officials have also delivered a number of local authority events across Wales to promote the available grant scheme, and these have been followed by visits to the authorities to provide bespoke advice in designing schemes and drafting their applications. A few authorities have not taken up this service but it has continued to be offered. In

addition, I have made revenue funding available for local authorities to increase their capacity to manage area based energy efficiency schemes and deliver the multiple benefits that we wish to achieve through our programme.

Officials are aware that some local authorities have had difficulty with procurement given the timescales and the complexity of the energy efficiency works that are involved. Local authorities must ensure that they are compliant with legislation and with their own internal procurement policies. My officials are considering what arrangements can be made to support procurement in future. The Arbed 2 programme has been setting a standard in terms of what can be achieved, with a multiplier of up to £2 return into the Welsh economy per £1 invested in the programme, as measured by the Value Wales Community Benefit Measurement Tool. In addition to this, one of the Arbed 2 scheme managers (Melin Homes) was awarded the Innovative Procurement award at the Welsh Housing Awards in 2014 and one of the framework SMEs (Gibson STS) won the Procurement/Tendering Collaboration Award at the Welsh Procurement Awards 2014. Both these awards were given in recognition for the good work carried out under Arbed.

Data

Stakeholders raised issues about both the availability of up to date data on the Welsh Housing stock and the co-ordination of data about those in fuel poverty to allow more effective targeting of schemes.

We would be grateful if you could:

- Detail what consideration you have given to updating the data available from the Living in Wales Survey and on the Welsh Housing stock to improve the delivery of energy efficiency schemes.
- Set out what discussions you've had with the UK Government on the better coordination of data on households most in need of energy efficiency measures.

Response

The most recent Welsh Government data was published in April 2013 through the Fuel Poverty Projection Tool, which provided modelled estimates of the number of households in fuel poverty in 2011 and 2012. These were headline figures only of all households, vulnerable households, and social housing.

We intend to publish new data on fuel poverty. However, this requires work to identify the most appropriate and cost effective form of data collection, in order to produce robust baseline data on fuel poverty and to be able to input data from Welsh

Government programmes and demonstrate the impact that our investment is having on tackling fuel poverty.

To take forward this work the former Minister for Natural resources and Food and the Minister for Housing and Regeneration agreed to jointly fund a specialist researcher to carry out scoping work and produce a business case for investment to identify short and long term options to meet the gaps in housing condition data. Work on this project has started and we expect the findings of the work to be produced before the summer.

I have not had any discussions with the UK Government concerning the co-ordination of data. The difference in availability of data between England and Wales means that it is difficult to co-ordinate data across the two. However, officials within Welsh Government are currently carrying out off gas mapping on behalf of the UK Government for the whole of the UK. This work builds on the off gas mapping work that Welsh Government undertook in partnership with Wales and West Utilities, and which stakeholders encouraged the UK Government to replicate for the whole of the UK. In addition officials liaise with UK Government regarding data on Energy Performance Certificates which is available across the UK.

The Energy Companies Obligation (ECO)

A number of stakeholders expressed serious concerns about the delivery of the ECO schemes in rural areas to date. Many organisations accused the energy companies of deliberately avoiding undertaking their obligations in harder-to-treat areas. In its evidence Ofgem outlined that as of April 2014 the energy companies had only delivered 1% of their rural sub-obligation. Ofgem stated that it was stressing the importance of improved delivery against this target. In their oral evidence the energy companies present stated that they were confident that the recent changes made to ECO by the UK Government would improve their delivery in rural areas.

The Committee would be grateful if you could:

- Detail any discussions that you have had with the UK Government, Ofgem or the energy companies about delivery of ECO in rural areas in Wales;
- Detail what representations the Welsh Government made to the UK Government about the potential impact on people in Wales of the changes to ECO;
- State whether the Welsh Government has done any work to assist housing associations in Wales affected by the changes to ECO and whether you have raised this issue with the energy companies concerned;
- Whether the UK Government has confirmed to the Welsh Government that it will require energy companies to continue to reduce consumer bills as a result of the ECO changes.

I have not yet had any discussions on this issue with the UK Government, Ofgem or with the energy companies. However, the former Minister for Natural Resources, Alun Davies wrote to the Secretary of State, Ed Davey in February 2014 to express concern over the effect that the changes to ECO would have on the delivery of solid wall insulation (SWI). The letter raised the issue of the high number of solid wall and hard to treat properties in Wales, which would benefit from SWI; it also stressed the need to increase support for off-gas properties, noting that support to such properties had been low.

In addition Welsh Government responded to the UK Government's consultation on the proposed changes to ECO. Our response re-iterated our concern over the poor delivery in off-gas areas, expressed a particular concern about the lack of delivery in the most remote parts of Wales and the stressed the need to do more to address this issue.

Officials in the Welsh Government have also had discussions with energy companies about the delivery of ECO in Wales, and these discussions have covered the impact to rural Wales of the changes to ECO and ways in which the Carbon Saving Communities Obligation sub rural obligation could be attracted to Wales to support households in rural areas.

The Minister for Natural Resources and Food, Alun Davies, wrote to Gregory Barker, the Minister of State for Energy and Climate Change, requesting information on the proposed changes and the potential implications for Wales. The Minister of State responded outlining the changes but only in the same general terms included in the announcement. The Minister for Natural Resources and Food subsequently wrote again to the Minister of State requesting that he ensure the close attention of DECC officials to the impacts that we might expect in Wales from the proposed changes.

In addition the Minister for Natural Resources and Food wrote a letter to Ed Davey, Secretary of State, expressing concern about the reduction in targets for Solid Wall Insulation (SWI) as a result of the changes to ECO. The Minister highlighted the high number of solid wall and hard to treat properties that would benefit from SWI and the need to increase support for off-gas properties, noting that support to these properties had been low. The letter also raised concerns about the number of complaints that he was receiving regarding the operation of ECO in Wales and the importance of customer protection.

The Welsh Government has not received any requests from Housing Associations to provide them with assistance regarding the changes to ECO. However, officials meet regularly with Community Housing Cymru (CHC) and keep CHC informed of the work in connection with ECO. Welsh Government has provided grant support to local

authorities to deliver area based energy efficiency schemes that leverage ECO investment. Housing Associations have been involved in a number of the proposals from local authorities and social housing properties have received support through these schemes. In addition my officials have presented on ECO at a number of events that Housing Associations have attended. These have included an event organised by Welsh Government designed specifically to support registered local landlords in accessing innovative forms of finance including finance from the ECO.

The UK Government has not confirmed to the Welsh Government that it will continue to reduce consumer bills as a result of the ECO changes.

Fuel debt and pre-payment meters

Stakeholders expressed concern about the level of fuel debt in Wales and about the energy companies' approach to dealing with those in fuel debt. In its oral evidence Citizens Advice Cymru told us that it was contacted by, on average, 2,500 people every year about fuel debt. SSE told us that it recognised that there was a greater degree of indebtedness in Wales compared to England and Scotland and that SSE has significantly more customers on pre-payment meters in Wales.

We would be grateful if you could;

- Provide details of any discussions you've had with the energy companies about:
 - The higher levels of fuel debt and customers on pre-payment meters in Wales,
 - Their policies for dealing with customers in fuel debt,
 - Their policies for assessing the suitability of pre-payment meters wishing to switch - to other payment methods, and
 - The roll out of smart meters in Wales.

Response

I have not had any discussions with energy companies about fuel debt or prepayment meters. While former Ministers and officials have had discussions with energy suppliers in the past about fuel costs and energy tariffs, it is important to recognise that the Welsh Government has no powers to regulate energy suppliers or to require them to change their policies and practices on fuel debt or payment systems. These powers lie with the UK Government and the energy regulator, Ofgem.

My officials' recent discussions with energy suppliers have focused primarily on the Energy Companies Obligation (ECO) and the negative impact that the UK Government's changes to ECO could have on Wales. Our priority has been to

ensure that, despite these changes, we maximise the funding leveraged into Wales and help more low income households to heat their homes at a more affordable cost.

I am concerned that rising energy prices and the UK Government's Welfare Reforms are having a significant financial impact on household budgets and are pushing more households in Wales into debt. I would welcome any action that Ofgem can take to ensure that energy suppliers support households who are struggling with their fuel bills. I welcome Ofgem's statement in its latest annual report on Social Obligations that it will be taking action to make sure that customers on Prepayment Meters (PPM) can access better deals, especially if they are in debt, and that they will ensure that suppliers are meeting rules requiring them to treat customers fairly.

SSE raised concerns at the recent NEA conference about the higher distribution costs faced by consumers in Wales and the impact these cost have on fuel bills. This is an important issue and one that Citizens Advice, who has statutory responsibilities to represent the interests of energy consumers, may wish to pursue. Welsh Government would be happy to work with Citizens Advice in seeking a fair deal on distribution costs for Welsh consumers.

On the roll-out of smart meters, discussions to date have been with the UK Government and Smart Energy BG, who are leading on the national roll-out of smart meters and engagement with consumers.