

Energy Saving Trust response to the Green Gas Levy Consultation

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Remit: The Energy Saving Trust is an independent organisation dedicated to promoting energy efficiency, low carbon transport and sustainable energy use to address the climate emergency. We deliver programmes on behalf of the UK government and all of the three devolved administrations.

Summary of Energy Saving Trust response:

Heat decarbonisation is likely to be one of the most challenging areas in delivering on net zero and will require the engagement and general consent of up to 29 million households. Given this need for public consent, we feel that it is vital that policy in this area is perceived as being fair, proportionate and as incentivising appropriate action.

Whilst the proposals will have a limited impact on households as they currently stand, the consultation document suggests that the scheme will be expanded both in scale and to other low-carbon gases such as hydrogen. If a levy-based approach were used to expand the scheme significantly (for example, to the regulatory level of 20 percent of grid gas supplies), then there would be a corresponding impact on fuel poverty if this were pursued without parallel action to improve the housing stock.

Whilst we appreciate the desire to reduce administrative complexity, the scheme's flat rate, per meter charge does not incentivise appropriate action to reduce consumption. There is also a risk that it could undermine public confidence in the wider net zero ambition, if interpreted by the public as a sign of how future costs will be distributed.

We have set out some overall comments under the headings of i) proportionate, ii) fair and iii) incentivising action and then responded to relevant questions below this

1. Proportionate

The timing of this consultation - before the Government sets out its proposed pathway for decarbonisation (the forthcoming Heat and Buildings Strategy) and how it intends to finance and distribute the costs (the forthcoming Treasury Net Zero Review) makes it hard for stakeholders to evaluate these proposals within a strategic context. For example, whilst this is a short, 4-year scheme, bill-payers would be liable for levy payments until potentially 2041. This seems a long commitment given the lack of clarity on the long-term approach for the gas grid (and how this might differ in some areas). It further risks increasing the complexity of pricing mechanisms in this area, rather than using the net zero challenge as an opportunity to simplify and increase the overall effectiveness of these price signals.

It is our understanding the scheme would add a further 2.8TWh to the 2.1TWh of biomethane blended into grid-gas supplies. Whilst this would more than double current levels of biomethane, it is still only a small fraction of grid gas - 1.4% percent or enough to heat 400,000 of the UK's 29 million homes. This is less than a third of the 4-percent of biomethane that the Committee on Climate Change has recommended be blended into the grid by 2030, and far lower than the 20 percent of low-carbon gas that could be permitted under current regulation. As with the proposed

grant fund for heat pumps (set out in May 2020) to support 25,000 measures, it is hard to see how these relatively small-scale proposals fit within a larger strategic plan to decarbonise heating.

We recognise that decarbonising heating is an immense challenge and likely to require a similar level of investment to that already spent decarbonising the power sector. If the approach is to be largely funded by energy levies rather than general taxation (or an alternative mechanism such as carbon pricing), there will have to be careful consideration of the distributive impacts.

The importance of energy efficiency: If a levy-based approach is pursued without parallel efforts to ensure that all homes are improved to an adequate level of energy efficiency (equivalent to Energy Performance Certificate [EPC] C) then there will be an impact on heating affordability and a corresponding increase in fuel poverty.

It is noted, however, that the average bill saving resulting from improving energy efficiency to EPC C is £400 per annum. This suggests that, whilst a levy route would not be the most equitable approach to distributing the cost of heat decarbonisation, there could be scope to pursue this approach, without increasing fuel poverty, were it run alongside efforts to upgrade all homes to a minimum standard (supplemented by a financial compensation for low-income households as a short-term measure or where homes cannot reach this standard).

Alternative proposals: We appreciate the intent to avoid any disruption to the bio-methane sector when the NDRHI closes next year but, note that this could have been achieved by extending the current exchequer-funded scheme (as proposed for the domestic scheme).

A further alternative approach could be to include waste incineration in the forthcoming UK Emissions Trading Scheme. A recent report on incineration entitled '[Evaluation of the climate change impacts of waste incineration in the United Kingdom](#)' states that the UK's 42 incinerators¹ released a combined total of nearly 11 million tonnes of CO2 last year, including five million tonnes of fossil fuel-based CO2. This is estimated to have resulted in an 'unpaid cost to society' of around £325 million in non-traded carbon price. Over 12 years this would generate £3.9bn, significantly over the £2.8bn required to fund the scheme. This price signal would incentivise waste disposal authorities to divert suitable waste streams away from incineration (and towards, for example, anaerobic digestion and the production of biomethane), at the same time as encouraging incinerators owners to improve the efficiency of their operations. This would make it in better alignment with 'the polluter pays' principle than the current proposal.

Fair distribution of costs

Whilst the overall impact of these proposals is small for end-users, the scheme could be perceived as unfair both because levy-based approaches are inherently less equitable than alternative ways of raising revenue such as general taxation and because the scheme proposes a flat-rate charge for all users, regardless of consumption.

On levy-based approaches:

In their report, [Reducing inequality resulting from UK low-carbon policy](#)² (Owen, A; Barrett J, 2020), the authors highlight how levy-based approaches to raising revenue can have a disproportionate impact on low-income households because:

¹ 17 further incinerators are in construction.

² <https://www.tandfonline.com/doi/full/10.1080/14693062.2020.1773754?scroll=top&needAccess=true>

- i) energy costs account for a larger share of the household budget (10+ percent of the least affluent households income but only 1.5 percent of the most affluent)
- ii) low-income households are less likely to be able to take effective action to reduce their bills (often lacking the relevant finance, information or ability (in the case of tenants) to improve their homes).

The current levy programme is often justified on the basis that, for the average household, the current annual cost of the scheme (£146 - 13 percent of total energy costs) is outweighed by the average bill savings (£290)³ that have resulted from energy efficiency improvements funded as part of the levy scheme since 2008. This focus on 'average' however obscures the impact on low-income households. Owen and Barrett highlight that as only 17 percent of the levy revenue is used to support low-income households (by reducing energy bills through the Warm Homes Discount or Energy Supply Obligation), low-income groups are paying out more than they gain from the overall levy package. In 2019, for example, this group contributed £271 million towards low-carbon policy costs whilst only receiving £220 million worth of benefits. So, whilst the impact of this new proposal is "relatively small" (increasing to a peak of approximately £6.90 per annum for domestic customers in 2028, and equating to an additional one per cent on bills), it would continue this regressive trend.

Precedent: Current levies are concentrated on electricity bills. This has reduced their impact on heating affordability and increased their public acceptance. Ofgem estimated that last year, for example, levy payments accounted for 20.4 percent of electricity bills but only 1.6 percent of gas bills. Whilst two schemes are currently part-funded by gas levies, both schemes were justified on the basis that net impact of these schemes is to reduce bills as they fund measures to reduce consumption (the Energy Company Obligation installs energy efficiency measures in low income households and the smart meter programme helps households to change their behaviour⁴). The green gas levy, however, would introduce a new precedent of heating levies that increase bills without seeking to offset this by reducing consumption.

We recognise that the UK has relatively low gas costs per unit however, the low efficiency of the stock (two thirds of UK homes are rated as inadequate - achieving a D-G rating on the Energy Performance Certificate scale) means that bills are often higher than elsewhere in Europe due to higher consumption.

We further recognise that the low unit prices for gas are at least partly due to the low VAT rate and lack of a carbon price (unlike electricity). However, since 11 percent of households cannot afford adequate heating (even with these low costs), we feel that new policies that will increase unit costs here should work in parallel with comprehensive action to bring down heating demand and therefore overall bills (such as a programme to bring all homes up to a minimum fabric standard).

Incentivise appropriate action

The proposals are for a flat rate tax in which each meter would be charged as the same rate regardless of the volume of gas supplied. This would mean that small domestic users would contribute to the scheme at the same rate as heavy commercial users of gas (on a per meter basis). Whilst we appreciate the practicalities, the signal that this provides to the public on how the costs of

³ <https://www.theccc.org.uk/publication/energy-prices-and-bills-report-2017/>

⁴ <https://www.gov.uk/government/publications/energy-trends-june-2017-special-feature-article-changes-to-eurostat-tables-methodology>

heat decarbonisation will be distributed is unhelpful and does not provide any incentive for users to reduce their consumption.

Energy Saving Trust response to consultation questions

1. Do you agree with our rationale for applying the levy to all suppliers of gas into the grid (apart from those that supply green gas exclusively)? Yes/No. Please provide evidence to support your response.
Yes (subject to the caveat noted in the overview above)
2. Do you agree with our rationale for proposing that the Green Gas Levy be charged on a per meter per day basis, according to gas supplier meter points served? Yes/No. Please provide evidence to support your response. N/a
3. Do you agree that the steps outlined above to provide notice to suppliers ahead of the first levy collection, and the notice period for subsequent years, are sufficient? Yes/No. Please provide evidence to support your response. N/a
4. Do you agree with our proposed methodology for calculating the pence per meter per day levy rate? Yes/No. Please provide evidence to support your response. N/a
5. What are your views on how underspend should be managed? Please provide evidence to support your response. N/a
6. Do you agree with our rationale for proposing that levy payments should be made quarterly? Yes/No. Please provide evidence to support your response. N/a
7. Do you agree with our proposal that gas suppliers should provide quarterly meter point data to Ofgem to inform quarterly levy payment calculations? Yes/No. Please provide information about the availability of meter point data and the formats that it could be provided in. N/a
8. Do you agree with the assumptions made and the costs set out for suppliers of familiarisation with the regulations and administration in the accompanying Impact Assessment (to be published during the consultation period)? Yes/No. Please provide additional information on any other costs to business associated with the Green Gas Levy that have not been discussed that should be considered (e.g. engagement with customers and changes to billing systems).N/a
9. Do you agree with the proposal to require all suppliers to secure credit cover? Yes/No. Please provide evidence to support your response. N/a
10. Do you agree with the forms of credit cover that we are proposing could be provided by suppliers? Yes/No. If not, what alternatives would you recommend that could also be drawn upon quickly? N/a
11. Do you agree that credit cover should be lodged on a quarterly basis, (if there is not already sufficient cover in place), in order to cover the upcoming quarterly levy payment? Yes/No. Please provide evidence to support your response. N/a

12. Do you agree with our proposal for a flat rate charge for the levy, without tiering, as part of a per meter point levy design? Yes/No. Please provide evidence to support your response.

No. Whilst we appreciate both that tiering will increase the administrative complexity of the scheme and that the actual costs involved are relatively small, we do not feel that it is appropriate to charge domestic users the same rate as large commercial gas users.

Decarbonising heating will be challenging partly because it will require the engagement and consent of all 29 million households in the UK. We feel that the message that this sends out would be counterproductive if it leads a segment of consumers to believe that ‘we are not all in this together’ and therefore reduces the inclination to follow future government messages in this area. A clear and transparent commitment to ‘fairness’ was one of the headline messages resulting from the recent Climate Assembly process.

13. What are your views on the impact that the Green Gas Levy could have on bill-payers? Please provide evidence to support your response.

The consultation document suggests that the increase on gas bills will be £1.40 at the start of the levy in 2021, increasing to £6.90 at the peak of the levy in 2028, representing an increase of 1% on domestic gas bills. Based on this we think that the impact of the current proposals will be minimal.

However, we are concerned that if this route is used to increase the overall proportion of biogas and/or hydrogen in grid supplier of gas (for example, up to the regulatory threshold of a 20 percent blend for alternative gases) then it would reduce heating affordability and increase fuel poverty - particularly if pursued in the absence of a comprehensive programme to bring all homes up to an adequate level of energy efficiency (EPC C)

To increase transparency in this area, we recommend that the government recommences its annual monitoring reports on the levy payments alongside a projection of the future impact of each scheme.

14. Do you agree with the proposed approach to budget control and financial management? Yes/No. Please provide evidence to support your response, including any views on the proposed change to the quarterly meter reading submission process for biomethane producers. N/a

15. Do you agree that the backdated payments proposal will provide the necessary certainty for biomethane developers to proceed with applying to the Green Gas Support Scheme during the gap in funding availability? Yes/No. Please provide evidence to support your response. N/a

16. Do you agree with the proposed mutualisation process? Yes/No. If not, what alternative mechanism would you propose? N/a

- 17. Do you agree with the proposal that Ofgem may report and publish information on non-compliance and enforcement action? Yes/No. Please provide evidence to support your response.** N/a
- 18. Do you have any views on how reporting can be used to best contribute to compliance with scheme obligations?** N/a
- 19. Do agree with the proposed approach of applying interest to late payments? Yes/No. Please provide evidence to support your response.** N/a
- 20. Do you agree with the proposed range of interest applied to late payments? Yes/No. Do you have any views on the appropriate rate of interest to mitigate against late payments?** N/a
- 21. Do you agree with the proposed approach for Ofgem to issue financial penalties, including the proposed maximum limit? Yes/No. Please provide evidence to support your response.** N/a
- 22. What do you consider the maximum fine should be where a gas supplier has either a low turnover or no turnover at all? Please provide evidence to support your response.** N/a
- 23. Do you have any views regarding the pursuance of debts through the courts by Ofgem?** N/a
- 24. Do you agree with more closely aligning levy costs with consumption through a volumetric approach, as the scheme develops? Yes/No. Please provide evidence to support your response.**
- Yes. A consumption-based levy would be fairer (aligning with the ‘polluter pays principle) and could incentivise those who able to reduce gas consumption.
- As stated in our overview, we also feel that an increase in the costs of gas should work in parallel with a comprehensive approach to reduce bills by increasing energy efficiency.
- 25. Which of the three options set out above would be the most suitable for designing a volumetric levy? We would welcome views on how to overcome any of the issues with those approaches that have been identified.** N/a
- 26. Are there any feasible alternatives to the proposals set out in this chapter for achieving a levy that is proportionate to gas volumes? Yes/No. Please provide evidence to support your response.** N/a
- 27. How could we ensure that a volumetric levy is designed in a way that promotes a competitive gas supply market and minimises costs, administrative burden, and other impacts on suppliers?** N/a

28. Does your interest in this consultation relate to a particular geographical area?

UK – England, Scotland and Wales