

Energy Efficiency: “The Number One Priority”

By Andrew Warren*

“Energy efficiency”, maintains UK energy and climate change secretary Edward Davey, “is my number one policy priority.” A very sensible priority, given that the cheapest and most ecologically valuable fuel is that which we don’t use.

So, if gas and electricity charges are levied at rates that seem deliberately to discourage frugality, it must be a priority to reverse such a perverse price signal.

And perversity describes precisely how all fuel bills are calculated. Look at your own gas or electric bill. The initial kilowatt hours consumed each month are charged at around three times the price of subsequent units. The result is that those who practice careful consumption are penalised. Whereas there is effectively a volume discount on profligate energy consumption.

Now opinion formers like Which? are overtly hammering the absurdity of thrifty consumers “paying more than a third extra per unit than someone who uses twice as much”.

Both practically, and in particular psychologically, this is no way to impress upon consumers the value of energy conservation: this is *prima facie* not the way to alter perceptions of value.

Equally it is not the best way to help poorer households: Consumer Focus have found that 85% of low income households consume less energy than average, and therefore pay more per unit. With over five million households now in fuel poverty, there is a real urgency to turn the price signals round. Instead of being many times more expensive, the initial amount of energy usage should be priced at a lower rather than higher rate.

This concept, the ‘Rising Block Tariff’, could be implemented in a number of ways. As in the conventional model, energy companies could be obliged to increase the unit price of the energy they sell in a series of consumption ‘blocks’. The more you consume, the more you pay. No longer would the frugal be out of pocket.

Equally, the concept can be mimicked through providing each customer with a cheap, even free, block of energy or an annual credit on their bill. The cost to the energy supplier of these blocks or credits would be made up for in higher unit prices. Again, the fewer units you consume, the less you would pay for the average unit of energy.

Derek Lickorish, who chairs the English Fuel Poverty Advisory Group, (of which I am a member) argues that the first 700 kWh of consumption should bear none of the costs from energy and climate change policy - effectively government mandated costs. The next 400kWh would attract these levies. And should a customer exceed 1100 kWh (700+400kWh) all these units plus the additional kWh consumed should attract additional levies. He draws the analogy with income tax thresholds, where those earning over £100k lose personal allowances.

By using regulation in this way, the proportion of funds collected to underwrite the basic needs of fuel poor households and subsidise fuel saving measures could be increased, with impunity. No longer could it be said that these policy costs were harming the fuel poor. Instead, only the profligate would underwrite them.

People would retain the right to use fuel wastefully, even excessively, just as now. The difference is that the more they use beyond the basic amount, the more they would pay for doing so via ever increasing kilowatt hour unit costs. Conversely, people could avoid high costs by moderating use. That moderation could be achieved by installing energy saving measures enabling significant provision of energy services without excessive use of fuels - or simply doing without unnecessary energy services, such as plasma televisions, hot-tubs and patio heaters.

Tim Yeo is chairman of the Commons select committee overseeing Edward Davey’s department. Twenty years ago, when he was environment minister, he acknowledged the absurdity of offering lower rates for extra expenditure. He recognised that what people wanted to buy from an energy company was not a commodity, equating kilowatt hours with detergents or soap flakes. It was services like light, heat, motive power. Which could mostly be provided satisfactorily burning fewer units of power.

He pressed for the introduction of rising block tariffs. Sadly he did not succeed at the time, quite possibly because climate change and energy policy were run by different government departments. But also because the pressing need to reduce energy consumption was scarcely acknowledged politically.

Now both policies are under the same management. Now is the time to reverse these absurd incentives for profligacy.

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