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RECOMMENDATIONS FOR THE EMERGENCY ENERGY RESPONSE

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The cost of energy has trebled in a year. Without intervention, the energy price cap will increase to £3,549 in October and rise again in 2023. Millions of UK households would be plunged into fuel poverty. The new Prime Minister has indicated that a substantial support package will be introduced to avert this immediate crisis. The government response must bring down energy bills in the short and long term, while also lowering inflation and reducing the risk of a prolonged recession.

By reducing our chronic dependency on gas, the government can address many of the economic and health challenges threatening the UK's return to growth and wellbeing. This briefing sets out how to lower energy bills for good, strengthen the economy, and increase our energy security.

We recommend:

> **Emergency financial support** to mitigate the impact of surging energy bills.

> **£5bn total investment in energy efficiency** this Parliament to lower household, business, and public sector exposure to high gas prices and permanently bring down energy bills. Starting with £2bn to ramp up existing energy efficiency schemes, with a further £3bn over the next three years to launch a new long-term programme to support millions more households.

> **Energy market reform** to ensure the benefits of low-cost renewables flow to consumers, accelerating the transition away from expensive gas, and removing legacy renewable policy costs from consumer bills.

> **Green finance regulatory reform** to leverage private investment and rapidly reduce the economy's energy cost base by transitioning to net zero.

Without these measures, the government will inevitably be forced into an indefinite cycle of further emergency measures in the years ahead. Gas prices are expected to remain at an unprecedented high for the foreseeable future. Some reporting puts the cost of the government's possible intervention to freeze prices at £130bn over two years.[1] This level of support will not be sustainable if the crisis lasts for as long as some analysts fear is possible. But by investing in lasting solutions now the government can reduce the cost of any future emergency support, start to tackle inflation and the cost of living and build a stronger, more resilient and energy secure economy.

Economic growth will be much harder to achieve without action on energy bills

The global energy shock caused by Russia's invasion of Ukraine is the key reason the UK faces double-digit inflation and a likely recession. When the price cap rises in October, England alone will face a collective £54bn increase in annual energy bills – regardless of whether the government or consumers pay for that increase.[2] Without intervention, UK households will suffer the largest real terms decline in disposable incomes since records began. The pain will be most acute for those on lower incomes, but even those on middle incomes face declines of between 5 and 8%. One in three households could be in fuel poverty this winter.[3]

No economy could bear this kind of impact unscathed. Consumer demand will fall while businesses are already facing huge pressure from inflation and the soaring input costs of energy. Small and medium-sized businesses are particularly threatened; thousands face potential bankruptcy. Efforts to grow the economy in the face of these challenges are likely to stutter. The first step in the emergency budget must be to protect households from the astonishing rises in energy bills this autumn and winter.

Sustained investment in energy efficiency will cut bills, fight inflation, and support jobs.

The UK has the most poorly insulated housing stock in western Europe.[4] Reducing the colossal amount of energy we waste is the most effective way to

[1] Bloomberg, 6 September 2022, **Truss Drafts £130bn Plan to Freeze UK Energy Bills**

[2] E3G, 26 August 2022, **UK government must launch retrofit revolution to save leaky homes £1000**

[3] National Energy Action, **What is fuel poverty?** [last accessed 1 September 2022]

[4] IMF, July 2022, **Surging Energy Prices in Europe in the Aftermath of the War: How to Support the Vulnerable and Speed up the Transition Away from Fossil Fuels**

make sure we have enough affordable energy to heat our homes and run our businesses. The one-third of homes that meet the government's target energy efficiency rating cost around £1,000 less per year to heat adequately than those that do not.[5] Even simple, low-cost measures like loft insulation can save households between £230 and £580 per year.[6] Upgrading all homes to EPC C, the government's target for 2035, would mean aggregate bill savings of £17.1bn per year in England alone at the prices coming into effect in October.[7]

British households are unusually exposed to international gas shocks. Nearly 99% of households rely on fossil fuel heating, with 85% connected to the gas grid.[8] Investing in energy efficiency will help to reduce the impact of this exposure and lay the groundwork for a shift away from gas and fossil fuel heating over the next two decades. By continuing to support efficient clean heat technologies like heat pumps, the government can help people make the switch.

The budget can start delivering energy saving measures now, while building a sustainable market and supply chain to meet the UK's energy efficiency needs in the medium term. The government should:

> **Launch a new market-led insulation programme open to all households, building on the tried and tested delivery mechanism and supply chains established by the Energy Company Obligation (ECO).**

£3bn in total public investment allocated over three years could lower bills for over 2 million households and help create a sustainable market for energy efficiency. This could be achieved through a new "ECO Plus" programme, which has been proposed and supported by industry experts, fuel poverty charities, retail banks, institutional investors and major energy suppliers.[9] Low-income households would be eligible for fully subsidised energy efficiency upgrades, while others would be eligible for part-subsidised upgrades. The government should commit to making this a ten-year programme to boost market confidence.

> **Step up existing energy efficiency support for the UK's most vulnerable households.**

[5] E3G, 26 August 2022, **UK government must launch retrofit revolution to save leaky homes £1000**

[6] Energy Saving Trust, **Roof and loft insulation** [last accessed 1 September 2022]

[7] E3G modelled estimates using English Housing Survey 2019/20 fuel poverty data

[8] Climate Change Committee, 2016, **Heat in UK Buildings Today – Annex 2**

[9] Energy Efficiency Infrastructure Group, August 2022, **ECO Plus: A Great British Energy Saving Scheme**

The UK has successful schemes that support home upgrades for those in fuel poverty, including ECO, the Home Upgrade Grant, the Local Authority Delivery Scheme and the Social Housing Decarbonisation Fund. However, their funding is not commensurate with the task at hand. The government should scale these schemes this year, at a minimum allocating the remaining £2bn for energy efficiency promised in the Conservative Manifesto for this Parliamentary term but not yet committed.[10]

ECO and the Warm Home Discount are vital lifelines for those in fuel poverty. They must continue to deliver. ECO was cut in 2013, which resulted in 46,000 job losses and leaves up to 9 million households facing energy bills £300 higher than they would otherwise have been. [11] The government must avoid falling into this trap again.

> **Make the housing market more resilient by boosting green home finance and investment.**

Rising interest rates and very high energy prices raise the risk of mortgage defaults. Mortgage lenders have an increased interest in helping their customers save money on their energy bills through insulation, by extending low-cost green finance. To accelerate this process, the government should push forward the plans for lenders' portfolio disclosure requirements that it recently consulted on.

The government should also introduce tax incentives like an energy saving Stamp Duty Land Tax adjustment, which would be a revenue neutral way to move the housing market towards greater investment in energy efficiency.

The Treasury should urgently consider the feasibility of supporting concessional finance for home retrofit, which could be delivered through retail banks in partnership with the government or UK Infrastructure Bank.

Making our energy system fairer and more resilient

To ensure an affordable, secure and fair energy supply, government should seek to lessen the UK's exposure to high and volatile international fossil fuel prices as far as possible. It should also ensure that consumers feel the full rewards of our expanding renewable electricity generation fleet. This means a cross-government push to remove barriers to further renewable investment and

[10] Energy Efficiency Infrastructure Group, June 2022, **Invest to Save: Energy Security Starts At Home**

[11] Insulation Assurance Authority modelled estimate using BEIS ECO4 impact assessment figures.

energy market reform so that consumers benefit fully from cheap renewable electricity.

> **Unlock the full benefits of the UK's world-beating renewable generation potential.**

The new Prime Minister should accelerate plans under the Review of Energy Market Arrangements (REMA) to ensure consumers do not pay the price of gas generation on all the electricity they buy. For example, the UK Energy Research Centre's proposal to move some existing generators onto Contracts for Difference could save households around £300 per year and give industrial and commercial electricity users access to cheaper rates as well.[12]

> In the meantime, the government should take the cost of legacy Renewable Obligation Certificates (ROCs) off consumer bills and into the Exchequer. Converting ROCs into Fixed Price Certificates in 2023 – four years earlier than planned – would save each household £80 per year.[13]

Building energy resilience into the UK economy by delivering finance and regulatory reform

The economic benefits of investment in new renewables and energy efficiency are clear. Private sector appetite for sustainable investment is also growing rapidly. High profile private sector-led coalitions like the Glasgow Financial Alliance for Net Zero, who represent over £100trn in assets under management, are increasingly prominent.[14] Nowhere is the opportunity clearer than in the growing global demand for green finance and green technologies – estimated to be worth over £1tn to UK businesses by 2030. The UK needs a coherent approach to green finance to take advantage of the shift in global markets towards sustainability. The approach must also ensure sufficient investment to deliver greater energy security and a net zero transition that drives economic growth. The government should:

> Deliver the **Green Finance Strategy**, underpinned by regular analysis of UK financial flows to identify market barriers and investment gaps. This should

[12] UK Energy Research Centre, April 2022, **Can renewables and nuclear help keep bills down this winter?**

[13] BEIS, August 2021, **Renewables Obligation: addressing electricity supplier payment default under the RO scheme**

[14] GFANZ, 3 November 2021, **Amount of finance committed to achieving 1.5 °C now at scale needed to deliver the transition**

include setting out a sector-by-sector net zero investment plan to ensure the UK maximises the leverage of private capital into the net zero transition.[15]

> Continue and accelerate the regulatory reforms begun by the Treasury to ensure private firms help the UK economy rapidly reduce the energy cost base with **credible net zero transition plans.**

> Deliver key reforms like **Sustainability Disclosure Requirements and the UK Green Taxonomy** to ensure capital flows to the investments that will effectively and fairly transition the economy away from fossil fuels and towards lower energy costs.

> Provide a **strategic steer to the UK Infrastructure Bank** to ensure it is at the forefront of making the UK energy system fit for purpose and tackling the critical cost-of-living crisis. The Bank should focus its investments on economy-wide energy efficiency and heat decarbonisation to help the country overcome the crisis.

> **Increase the capitalisation of the UK Infrastructure Bank** to ensure it has the financial firepower to tackle the cost-of-living crisis, with a requirement to deliver energy efficiency investment to local authorities and households in the short term.

About E3G

E3G is an independent European climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at **www.e3g.org**

[15] E3G, 3 August 2022, **Key elements for the 2022 Green Finance Strategy**