

Consumer Futures

Infrastructure and Affordability

Adam Scorer

Director of Policy and External Affairs

RPI conference - 10 September 2013

Affordability acknowledged, but marginal

*'... government has a duty to provide a framework in which demand can be met and which attracts investors ... because they can rely upon fair returns. That in turn means getting regulation right, so that **consumers and the taxpayer don't end up with high bills and too much of the risk.**'*

David Cameron - March 2012

*'... much of the policy debate on infrastructure fails to address the fundamental question of "Who Pays?" ... **over the long term funding of infrastructure can only come from three sources – national taxation, local taxation and user charging.**'*

Sir John Armitt - September 2013

*'Limited public resources mean that **the burden of funding is likely to shift towards the public as consumers, rather than taxpayers.** There has been no overall assessment by government of the future impact of infrastructure spending on consumers.'*

National Audit Office – January 2013

Wide range of views on costs

Maximal view

- Water – c. £20bn
- Transport – c.£100bn
- Comms – c. £100bn
- Energy - c. £250bn
- Total – c. £500bn

IUK pipeline (2012)

- Water – c. £16bn
 - Transport – c. £92bn
 - Comms – c. £16bn
 - Energy – c. £176bn
 - Other – c. £9bn
 - Total – c. £309bn
- (£257bn 2012 – 2020)

Unprecedented UK energy spend

- Citigroup estimate:
 - £198bn on energy infrastructure by 2020
 - £51bn replacement/renewal
 - £147bn to meet environmental targets
 - UK utility infrastructure spend 2010 – 2020
 - Double that of Germany and triple of Italy or Spain
- DECC EMR estimates:
 - £75bn in new electricity generation
 - £35bn in transmission and distribution
 - £110bn still a doubling of current rate of investment

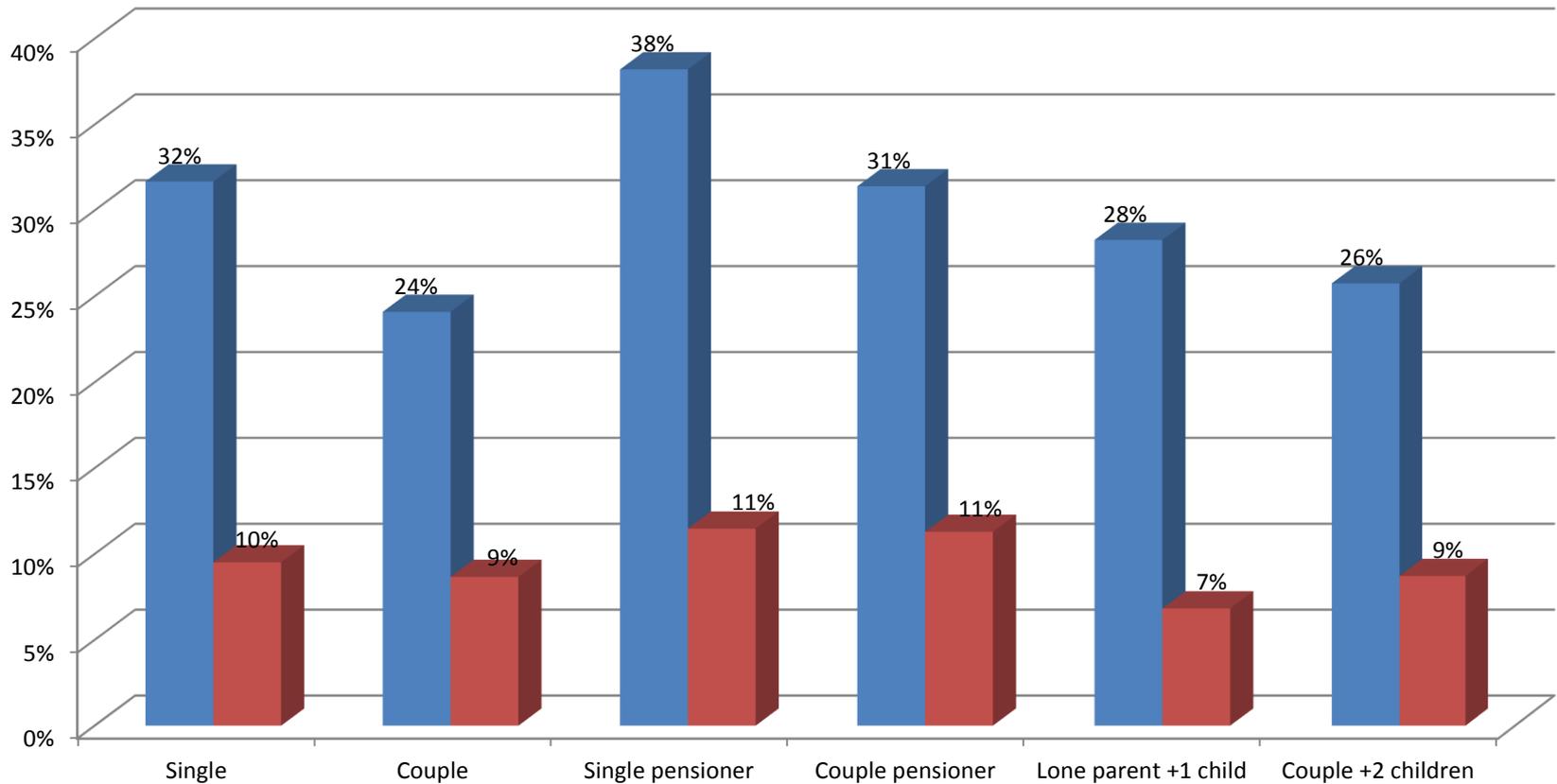
Possible cumulative cost to consumers

Costs of financing infrastructure expenditure per consumer £ per year (average for each period) 2013-2050

Sector	Next five years	Up to 2020	Up to 2030	Up to 2050
Energy	45.8	85.2	185.3	314.3
Water	16.3	26.4	52.9	85.1
Communications	18.3	28.2	53.4	78.4
Rail	21.4	28.6	43.4	60.4
Civil Aviation	2.8	4.8	11.2	19.9
Post	3.5	4.8	7.3	9.6
Total	108.1	178.0	353.5	567.7
Total per household	259.4	427.2	8848.5	1362.5

Differential impact should inform cost recovery and social measures

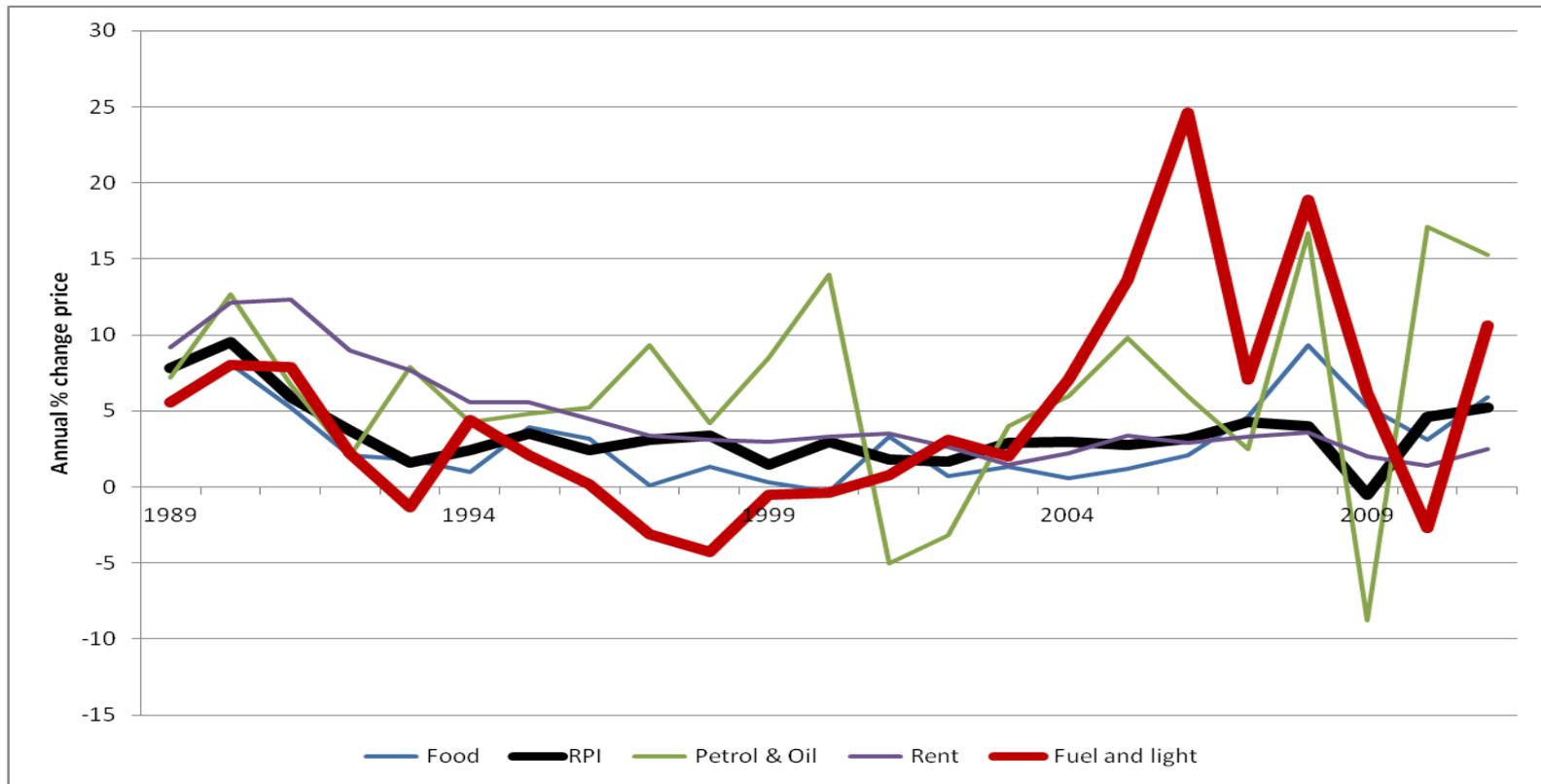
Poverty premium – consumers have to pay more for essential services – incl credit



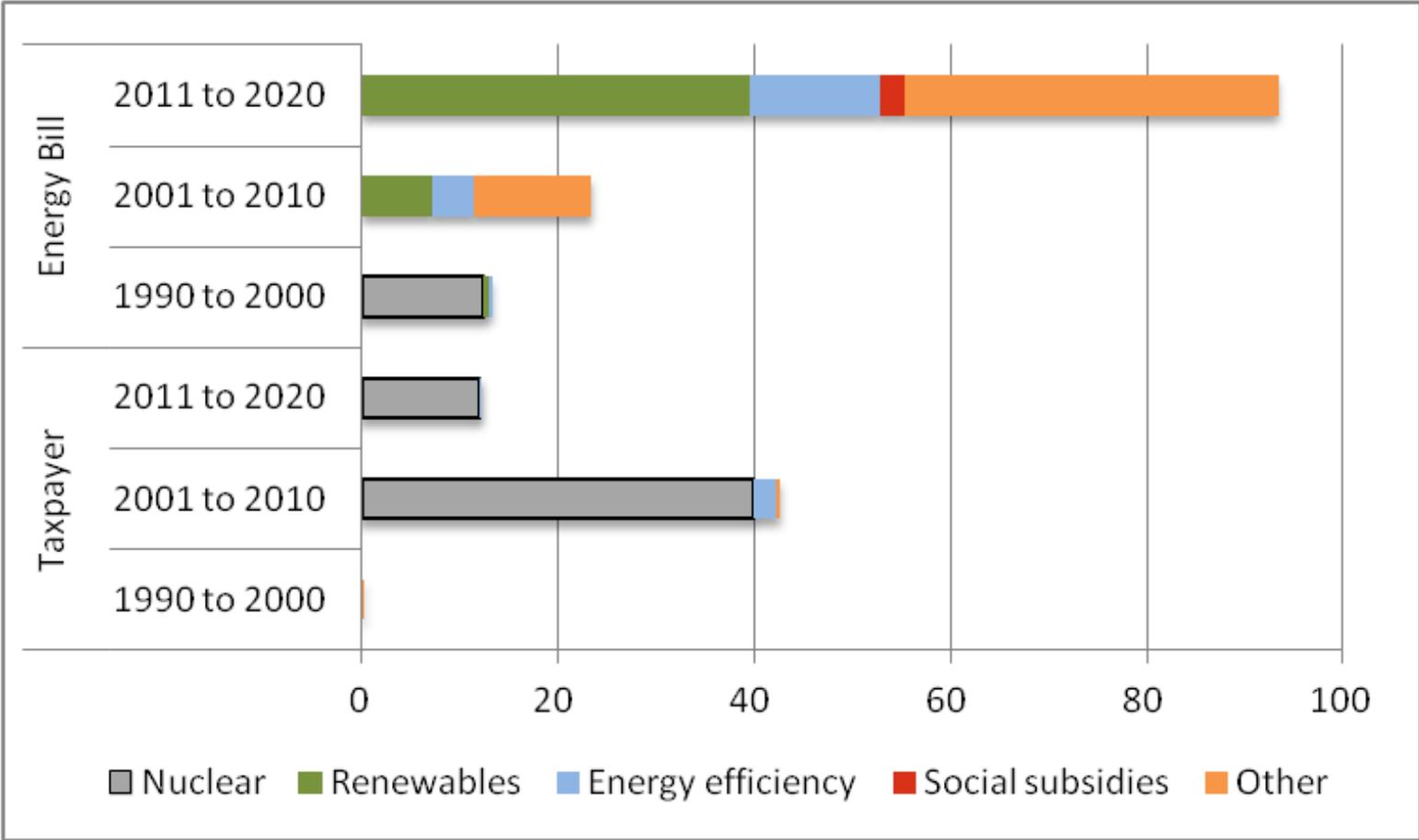
Make affordability part of the policy framework

- 1. Understand the cumulative impact of investment on consumers/users**
- 2. Understand the distributional impact and the economic/social policies to mitigate the impact on 'losers'**
- 3. How might the shape or efficiency of demand reduce the amount of inward infrastructure investment required**
- 4. Appropriate accountability and scrutiny to ensure affordability is considered.**

Since 2000 fuel and lighting costs risen faster than RPI, housing, petrol



Cumulative expenditure on social and environmental programmes by customers and taxpayers (£bn / decade)

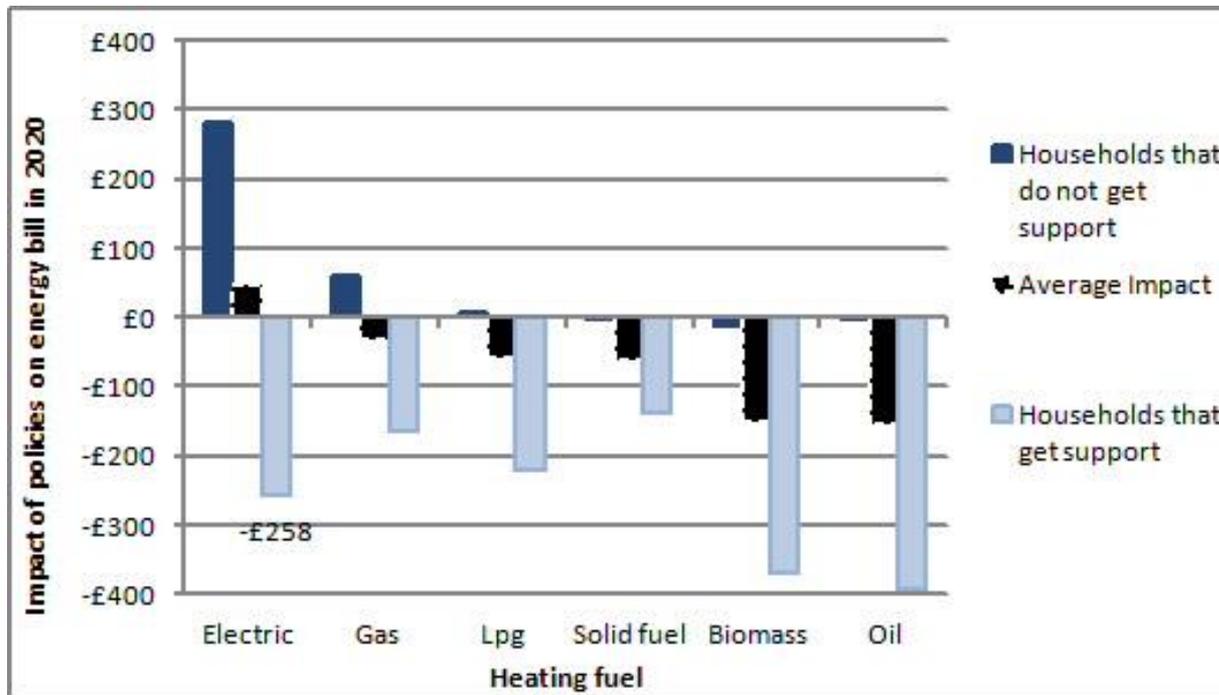


No clear steer from consumers

Intervention	Support before debate %	Support after debate %	Net Support %
Willing in principle to pay more on energy bill for greater investment in renewable energy	46	62	+ 16
Willing in principle to pay more on energy bill for greater support for vulnerable groups	57	67	+ 10
Willing in principle to pay more on energy bill for greater investment in making UK homes more energy efficient	31	36	+ 5
Willing in principle to pay more on energy bill for greater investment to make your own home more energy efficient	75	73	- 2
Prefer local scale renewable energy projects to large scale national projects	61	52	- 9
Prefer some or all to be paid instead through general taxation	64	38	- 26
Prefer some of all to be paid through energy company & shareholder profits		96	

Energy Policy creates winners and losers

Impact of policies on energy bill by heating fuel and those who do and do not receive support



Make affordability part of the policy framework

Cumulative Impact - Deliver low carbon, secure energy supplies at the lowest cost to consumers. The emphasis on technology specific subsidy prices through an administered process is likely to push up consumer costs unnecessarily.

Distributional Impact - Seek the least regressive way of recovering costs of infrastructure investment from consumers. Currently all Electricity Market Reform measures appear to be bill based and per household, not per unit. Electric heating homes hit hardest.

Shape of demand - Energy reduction measures must compete under the package, such as energy efficiency, and reducing peak time usage through demand side response measures. Extend “infrastructure” projects to include energy inefficient housing stock.

Accountability - Transparent mechanisms to monitor the impact on consumer bills, both in total and differentially, and to manage costs down. The scale of some contracts with developers should be subject to adequate scrutiny to ensure they offer value for money.

Consumer Futures

London

Victoria House
Southampton Row
London
WC1B 4AD
Tel: 020 7799 7900

Glasgow

Royal Exchange House
100 Queen Street
Glasgow
G1 3DN
Tel: 0141 226 5261

Cardiff

Portcullis House
21 Cowbridge Road East
Cardiff
CF11 9AD
Tel: 029 2078 7100

Belfast

Elizabeth House
116 Hollywood Road
Belfast
BT4 1NY
Tel: 028 9067 4833