

Consultation response

Ofgem's Call for input on the future of price protection.

Chair of the Scottish Fuel Poverty Advisory Panel

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09/05/2024

To: Dan Norton, Deputy Director for Price Protection, Ofgem
cc: Scottish Fuel Poverty Panel Members – Ms Margaret Corrigan, Dr Kirsten Jenkins, Mr Alister Steele & Dr Fraser J Stewart

Dear Dan

The Scottish Fuel Poverty Advisory Panel is an advisory non-departmental public body which provides independent advice to Scottish Ministers on fuel poverty and scrutinises Scottish Ministers' progress towards delivering Scotland's 2040 fuel poverty targets.

Since it was established on the 1st of January 2022 the Panel has engaged widely across the third sector (advice agencies and housing associations) and energy sector (retail and network energy companies, trade associations), yourselves at Ofgem, and with the Energy Ombudsman. It has also engaged with those with lived experience of fuel poverty. The Panel's views are informed by this engagement as well as their own knowledge, experience and understanding.

There are four drivers of fuel poverty: high energy prices; how energy is used in the home; the poor energy efficiency of the home, and low household income. Post-energy crisis, high energy prices are a material cause of fuel poverty in Scotland. As a result of this, the Panel is of the view that fuel poverty cannot be eradicated without substantial reform of the UK's system of energy pricing.

The Panel's view is that eradicating fuel poverty and avoiding any future risk of vulnerable consumers and low-income households falling into fuel poverty, should be a long-term outcome of the reform of the UK energy market. A shorter-term outcome should be the protection of vulnerable consumers and low-income households during

the energy transition by measures to close the fuel poverty gap. It is clear that a structural change to energy pricing or energy support for vulnerable households is needed, as are measures to address the geographical inequalities in energy pricing.

The Scottish context

The Scottish Government estimates that, following the revised price cap coming into force on 1st April, there are 790,000 households (31%) living in fuel poverty in Scotland with 490,000 (20%) living in extreme fuel poverty. The figure of almost a third of Scottish households living in fuel poverty is stark but this becomes more so when disaggregated with 48% of households in remote rural locations in fuel poverty. The 48% figure aligns with the issues facing those, predominantly living rurally, who are off the gas grid and often reliant on electricity for heat. The link between electricity and gas prices fails these communities because the Typical Domestic Consumption Values (TDCVs) used in calculating the price cap are unrepresentative for those using electric heating as their main heat source.

There continues to be a real frustration in remote rural areas which suffer the highest levels of fuel poverty exacerbated by high energy prices, while they host large scale renewable power generation. The negative implications of current pricing structures for those with electrified heating also raises concern surrounding the increased integration of heat pumps. The increased drive towards decarbonisation, at a time when electricity prices are so high, raises questions about the affordability of decarbonisation especially for those in fuel poverty.

Evidence on energy debt also sheds light on fuel poverty: the average energy debt presented by people seeking help from the Citizens Advice network in Scotland is £2300¹, this is higher than the average energy debt reported in the Citizens Advice network of £1,860 elsewhere in the UK.² In rural areas, it is likely to be higher. In Northern Scotland, standard charges are some of the highest in the UK.³

It is absolutely clear from the fuel poverty rates and the level of energy consumer debt that the existing energy market arrangements and price protection are not working for almost a third of Scotland's population.

What affordability measures might be designed?

It is the Panel's view that a targeted, flexible, and dynamic discount mechanism is required. This is often called a social tariff, but the Panel acknowledge this means different things to people which can be a barrier to acceptance. Therefore, the Panel sees benefit in adopting a term that better describes the intended outcomes from any intervention.

Such a mechanism should be focussed on closing the fuel poverty gap – providing the support needed to bridge the gap between the energy costs to ensure household health and wellbeing (heating to recommended temperatures and accessing energy

¹ <https://committees.parliament.uk/writtenevidence/128035/pdf/> - January, 2024.

² [The debt protection gap - Citizens Advice](#) – April, 2024. Average energy debt owed by clients is over £1,840.

³ [HER Report V1 \(drewhendrymp.scot\)](#) – March 2024.

services) and household income.⁴ The Panel recognise that there are design challenges in creating a discount mechanism and in response, has developed principles on how it thinks this could be achieved. (These are set out in the next section of this letter “What might a targeted, flexible, and dynamic discount mechanism look like?”).

It is worth considering some of the deficiencies of existing support mechanisms, and therefore why merely reforming these would not necessarily enable the outcomes of eradicating fuel poverty, avoiding any future risk of vulnerable consumers and low-income households falling into fuel poverty, or protecting vulnerable consumers and low-income households during the energy transition.

After March 2024, the Winter Fuel Allowance and the Winter Heat Payments are left as the only energy bill support funded through general taxation. The most far-reaching mechanism intended to support vulnerable households is the Warm Home Discount (WHD) and it has limitations in the way it is structured, funded, and delivered. Firstly, the WHD has not changed in the 13 years since it was introduced. The WHD has not kept pace with inflation or the high cost of energy, its value is insufficient, and is not tapered in a way that is equitable for those who have to pay more to heat their homes (for instance those using electricity or unregulated fuels). It is funded through levies on all electricity bills, which both burdens those who are struggling with their energy bills and fails to raise the funds needed to meet the level of need; and, testimony from those living in fuel poverty prove how difficult it can be to work through energy suppliers to access WHD. It is the Panel’s view that social and environmental costs, including the WHD scheme, should be separated out from standing charges and funded through central taxation.

The Panel’s view is that in the short term, prior to the introduction of a targeted, flexible, and dynamic discount mechanism, winter fuel payments – Winter Heat Payment, Winter Fuel Payment and WHD – should be consolidated. The Panel recognise that this cuts across both UK Government and Scottish Government competency, i.e. the Winter Fuel Payment (to become Pension Age Winter Heating Payment) is to be managed by the Scottish Government and paid by Social Security Scotland from the end of 2024. Therefore, extensive collaborative working is required. The eligibility criteria should also be rationalised, i.e. where this is not already the case, the funds should be targeted at vulnerable and low-income consumers.

What might a targeted, flexible, and dynamic discount mechanism look like?

1. To substantially reduce levels of fuel poverty a targeted, flexible and dynamic discount mechanism that reduces the energy costs of eligible households is required. Those in greatest need should receive a discount that covers a significant unit rate discount and all of their standing charge. The advantages of a tariff that discounts both the unit rate and covers the standing charge are:

⁴ The recently published [Scottish House Condition Survey](#) median fuel poverty gap figure for fuel poor households in 2022 was £1,240. This is 65% higher than the median fuel poverty gap from 2019 of £750.

- a) It can be automatically applied and does not require the use of vouchers which will increase the uptake rates among fuel poor households by overcoming some of the barriers to take-up faced by those on legacy prepayments meters
- b) It will remove the burden of paying the standing charge, which is one of the factors that leads to self-disconnection
- c) It will ensure the recipients' entitlement to means tested benefits remains unaffected
- d) it will ensure the investment is used for the purpose for which it's intended (i.e., it will ensure the discount is used to keep a home warm and well serviced, rather than being used to repay energy debt or to fund other household expenditure). Given the consumer energy debt levels in Scotland and across the rest of the UK, this is crucial.

2. The Panel recommends that anyone on means tested benefits should be automatically eligible to receive the discount mechanism. This will include households on Universal Credit, Housing Benefit, Pension Credit, income-related Employment and Support Allowance, income-based Jobseeker's Allowance and Income Support. We also recommend a second route where a household can apply and receive the discount mechanism even if they do not qualify for the means tested benefits above, but nevertheless are likely to suffer some detriment if support is not available. Households should qualify for this second route if they have one of the following:

- a) A low income
- b) A modest income and live in a home that's expensive to heat. e.g., houses with poor energy efficiency, houses off the gas grid, and households with high energy needs
- c) A member of the household has a medical condition that requires an enhanced heating regime or that requires the use of electrified medical equipment at home
- d) A member of the household's in receipt of Carers' Allowance.

3. The value of the discount mechanism should recognise different definitions of fuel poverty across the UK and ensure that the value of each household's discount is determined by the price of energy and the household's individual circumstances.

Relevant household circumstances could include:

- a) Household income
- b) The total fuel costs necessary for a home. The inclusion of unregulated fuels will be especially pertinent for the high percentage of the Scottish households off the gas grid
- c) Household location. The discount mechanism should account for the additional energy consumption that is typical in remote rural and island communities
- d) Medical needs of household members
- e) The time of year, with an aim of smoothing energy cost throughout the year, reflecting the point that prepayment customers in particular need higher levels of support in the heating season, and in peak winter.

A discount mechanism such as this will ensure the level of support can be targeted and tapered according to need. This tapering will help to avoid an entitlement cliff edge and to preserve the financial sustainability of the discount mechanism.

4. The Panel recommends that the discount mechanism values are set by Ofgem or an independent body and are set with reference to closing Scotland's fuel poverty gap.

5. The Panel recommends that the UK Government administer eligibility criteria for the discount mechanism to ensure consistency and appropriate accountability across the UK in alignment with each administrations fuel poverty definition. The necessary assessment of eligibility can be achieved quickly by the UK Government through linking HMRC, Department of Work and Pensions, and energy usage data. The UK Government should also be responsible for maintaining a clear and transparent process where people who miss out on receiving the discount mechanism can understand why, and / or appeal. Energy suppliers could then be made responsible for delivering the scheme. In the longer term, the system should also include a home's energy efficiency information.

6. It is the Panel's view that the level of meaningful financial assistance required to support vulnerable households' energy costs cannot be funded simply through levies on bills. The Panel recommends that the costs of a discount mechanism are covered through general taxation. The Panel believes that the costs could be offset by reviewing the non-targeted non-taxable status of the Winter Fuel Allowance; and ringfencing taxation from the energy sector. The cost of support may well be high but given the current levels of consumer energy debt (c. £3.1 billion) and the rising fixed costs which this is triggering, it is clear that current measures to support vulnerable consumers and low income families are not working. Without a radical reappraisal of consumer protection, we are only like to see debt levels rising, energy bills rising (in spite of lower energy prices) and fuel poverty deepening.

The Panel would like to engage with Ofgem once you have considered the evidence from your consultations on standing charges, affordability and debt, and the price cap. We would be happy to do this either with you directly, Dan, or as part of a wider stakeholder group.

Yours

Matt

A handwritten signature in blue ink, appearing to read 'Matt', with a long, sweeping horizontal line extending to the right.