

Call for evidence on the Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill

Energy UK response

9th November 2018

Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 680,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests over £12.5bn annually, delivers around £84bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

These high-level principles underpin Energy UK's response to the Scottish Parliament's Local Government and Communities Committee call for evidence on the Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill. This is a high-level industry view, and Energy UK's members may hold differing positions on particular issues.

Executive Summary

Energy UK is grateful for the opportunity to respond to the Local Government and Communities Committee's call for evidence on the Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill.

Energy UK members¹ take their obligations to their customers, including those in or at risk of fuel poverty, seriously and continue to play an active role in helping to alleviate fuel poverty through supplier obligations such as the Warm Home Discount (WHD) and the Energy Companies Obligation (ECO).

Energy UK notes that the UK-wide ECO scheme has worked well for Scotland, with around 12% of ECO2 delivery being to homes in Scotland. A high proportion of ECO2 measures have been delivered in Scotland due to the matched funding from Scottish Government under the Home Energy Efficiency Area Based Scheme (HEEPS:ABS), providing valuable support to ECO funding.

We strongly welcome the Scottish Government's commitment to address fuel poverty in Scotland, and we are pleased to see Government taking a holistic approach to tackling this multi-faceted issue. Fuel poverty is a complex challenge that requires interventions not just in energy efficiency and the energy costs households face, but also in incomes and wider government supports.

We support in principle many features of the Bill, including the aim to have a fuel poverty definition that targets assistance to those most in need, measured targets and the requirements to prepare strategies to help determine whether progress is being made and targets are on track. However, we also hold a number of concerns about the Bill and would welcome further detail and analysis behind some of its features.

¹ Energy UK's retail members include: Bristol Energy, British Gas, Co-Operative Energy, Green Star Energy, Ørsted, Ecotricity, EDF Energy, Engie, E.ON, ESB Energy, Extra Energy, Flow Energy, Good Energy, Haven Power, Hudson Energy, npower, Octopus Energy, Opus Energy, OVO Energy, Scottish Power, Smartest Energy, Spark Energy, SSE, Utilita and Utility Warehouse.

We are concerned that the length of the target risks repeating the circumstances that led to the missed target to eliminate fuel poverty by 2016. There is currently a lack of clear detail about the funding available to achieve the Bill's targets, and this risks losing the momentum required to meet the targets across successive Parliaments.

While we welcome a fuel poverty definition that effectively captures the households struggling the most with fuel costs, we hold concerns that the definition used in the Bill is too complex if it is used to identify fuel-poor households for the purposes of delivery of energy efficiency measures. This is due to the amount of information that would be required to calculate whether a household is fuel poor. We encourage the Scottish Government to make full use of its powers under the Digital Economy Act, as well as consider the use of proxies, to ensure the necessary data is available to support providers. Additionally, the use of an absolute fuel poverty rate as a target may be a challenge to realistically meet, given some of the drivers of fuel poverty, such as energy prices, fall outside of the Scottish Government's devolved powers.

We also urge the Scottish Government to consider an alternative to the Minimum Income Standard (MIS) in defining fuel poor households, as it may not be an appropriate metric to account for remote, rural and island communities, which feature heavily among the fuel poor in Scotland. If the proposed definition using the MIS does proceed, we would strongly encourage the Scottish Government to make full use of its powers under the Digital Economy Act to help link eligible households with fuel poverty support.

Assessing the impacts of the Scottish Government's progress to meeting its fuel poverty targets is important, and should be included alongside the 5-yearly updates to the Fuel Poverty Strategy. When assessing these impacts, it is vitally important that the voices of those experiencing fuel poverty are heard directly.

Lastly, we would encourage the Scottish Government to look carefully at other strategies in areas that relate to fuel poverty and energy, such as energy efficiency and climate change, to ensure that targets are not diluted by attempts to meet goals across multiple strategies.

Detailed responses to questions

Statutory Target

1. Do you agree with the Scottish Government's proposal to provide for a statutory target to reduce fuel poverty to no more than 5 per cent of Scottish Households by 2040?

Energy UK supports the Scottish Government's commitment to addressing fuel poverty and in principle supports the inclusion of a statutory target in the Bill to reduce fuel poverty in Scotland. A statutory target sends a clear message that the Scottish Government is serious about tackling fuel poverty, and helps to ensure that the momentum of progress is maintained across successive Parliaments.

While we are supportive in principle of a statutory target for fuel poverty, we are cognisant of the past experiences, noting the failure to meet previous target to eliminate fuel poverty in Scotland by 2016. The proposed statutory target sets a long timeframe to meet the Scottish Government's fuel poverty goals, and we question whether it is ambitious enough to focus attention on taking swift action to address the issue. A timeframe of 22 years to meet the target runs the risk of action once again being put off by successive Parliaments until it is too late to meet the target in the time remaining. A clear funding commitment and plan is needed to ensure regular progress is made between now and 2040.

We also note that the proposed statutory target for fuel poverty has been reduced from no more than 10% of households in Scotland in fuel poverty by 2040 when the consultation for a fuel poverty strategy took place at the start of 2018, to 5% of households in the present Bill. While we recognise the Scottish Government has responded positively to calls to make the target more ambitious by lowering the target threshold, we have not seen any analysis into what effect a lower threshold may have on the Scottish Government's ability to meet the target.

Additionally, there is little information in the Bill or the Fuel Poverty Strategy about how the target will be met, and we consider that substantial further detail needs to be worked out. The Bill's goals are intrinsically linked to the Energy Efficient Scotland Programme, and we would welcome further detailed information about how the Programme will be leveraged to meet the goals set out in this Bill.

We also hold some concern that the target's ambitious focus on reducing fuel poverty outright will be a challenge for the Scottish Government, as fuel poverty is a multifaceted issue. Some factors, such as the regulatory framework around energy prices for example, do not fall within Scotland's devolved powers. The Scottish Government will have to carefully consider the ways in which it can directly drive measures to address fuel poverty, and where influence may be needed in other areas.

Definition

2. Do you agree with the Scottish Government's proposals for a revised definition of fuel poverty?

Energy UK supports the use of a definition of fuel poverty that is focused on addressing those most at risk of the harmful effects of being in fuel poverty. We consider that the Bill's proposal to set the definition of being in fuel poverty at 90% of the Minimum Income Standard (MIS) after energy, housing and childcare costs are deducted is likely to be more accurate than the current definition in capturing those who are both fuel and income poor.

While we support in-principle a definition that focuses on those in fuel poverty, we hold concerns about the accuracy and appropriateness of using the MIS to account for Scottish conditions and geography, given the standard was developed for the United Kingdom as a whole. The MIS does not account for the energy costs of remote, rural and island communities, which make up a significant part of Scotland's fuel-poor population. Many of these households are off-gas properties that rely on fuel deliveries, whose costs reflect national average gas prices rather than local grid prices for Scotland. We acknowledge that the Scottish Government has indicated it will adjust the MIS to account for local circumstances, however we would urge the Government to also consider developing a bespoke measure more appropriate to Scottish communities.

We also have serious concerns about the complexity and workability of the proposed definition. If the definition is used to determine eligibility for energy efficiency measures and other support to alleviate fuel poverty, the level of information required to calculate whether a household is in fuel poverty may prove a serious hindrance to both people seeking relief, and for those providing assistance. To mitigate this risk, the Scottish Government should seriously consider the use of proxies to identify fuel poor households in need of assistance and as well as fully make use of its powers under the Digital Economy Act to put out as much information as possible to assist the energy efficiency supply chain to reach those targeted by the Bill. This could include pre-identification of households likely to be eligible for assistance, and the provision of information to entities such as local authorities, which play a significant role in identifying those in need. We expect the importance of local authorities in delivering actions to address fuel poverty to grow, as the next iteration of the ECO Scheme is expected to increase the maximum proportion of flexible ECO eligibility to 25%, where fuel poor households can be identified for measures by councils.

Fuel Poverty Strategy

3. Do you agree with provisions in the Bill requiring the Scottish Government to publish a fuel poverty strategy? Do you also agree with the consultation requirements set out in relation to the strategy?

Energy UK is supportive of the requirement to publish a fuel poverty strategy, and for the strategy to be updated and reported on every five years.

We would support the Scottish Government taking a thorough approach to consultation when renewing the strategy and reporting on progress towards the targets. It is important that consultation is effective and comprehensive. In our members' experience of delivering the ECO Scheme, fuel poor households are notoriously difficult to contact and engage with. Consultations in this area run the risk of relying too heavily on third-sector and other organisations which, while a highly valuable part of the conversation

on fuel poverty, can result in those affected by the issue not having a direct voice about their experiences. We would like to see the Scottish Government ensure that the full experiences of those in fuel poverty are reflected in subsequent refreshes of the strategy and targets.

4. A draft fuel poverty strategy was published alongside the Bill on 27 June. Do you have any views on the extent to which the measures set out in the draft Fuel Poverty Strategy for Scotland 2018 will contribute to meeting the Government's new target? Have lessons been learned from previous initiatives?

Again, we consider that there is a lack of detail in the strategy currently about how the targets will be met, and what funding is available to do this. The Scottish Government must also make commitments to ongoing funding at a level that is adequate to meet the ambitious targets it is setting.

We would also encourage the Scottish Government to consider the Fuel Poverty Strategy in the wider context of its work that is related to other parts of the energy sector. For example, the Climate Change Plan and Scotland Energy Efficiency Programme both make reference to fuel poverty targets in relation to their goals. While there is crossover between fuel poverty, climate change and wider energy efficiency goals, care needs to be taken to ensure that the outcomes for fuel poverty are counted in the right place.

We would support the strategy containing updates about the impact energy efficiency schemes and other measures are having in addressing fuel poverty in the subsequent 5-yearly updates, alongside high-level progress against meeting the targets. This would help to focus subsequent strategies on deploying measures that make a demonstrable difference to those in fuel poverty.

Reporting Requirements

5. Do you have any views on the Scottish Government's reporting requirements to the Scottish Parliament, as set out in the Bill?

We support the inclusion of the requirement for a report to be prepared by the end of March 2042, covering whether the statutory target has been met.

For further information or to discuss our response in more detail please contact Steve James on 020 7747 2969 or at steve.james@energy-uk.org.uk.