

NetZero Committee

Energy Action Scotland Submission

Introduction

Unprecedented increases in energy costs are set to have a devastating impact on households across Scotland this winter. Pre-pandemic a quarter of households, over 600,000¹ were struggling with their energy costs.

The impact of this will undermine the health and wellbeing of many people and put pressure on the NHS, fuel poverty related NHS costs are estimated to be over £100million in Scotland. Sadly, this will lead to an increase in excess winter mortality, which already accounts for over 6 deaths every day in winter.

Households in **rural Scotland** are doubly penalised with higher costs. Many of these households pay almost double the average UK dual fuel bill because they live off the gas grid and are dependent on electricity and perhaps solid fuels. They also suffer from an apportionment of transmission costs² which further inflate costs vs other parts of the UK. A legacy of when these areas were remote from the centres of power generation, yet these very same areas are now the powerhouse of our renewables sector. Even daily standing charges further disadvantage households in Scotland over other GB households. The highest standing charges for electricity are found in Scotland whilst the lowest are in London (See Appendix 2).

Fuel Poverty in the UK

- Scotland was estimated at 613,000 in 2019, or 24.6 per cent of households;
 - In February Kate Forbes MSP, Cabinet Secretary for Finance, and the Economy³ identified that Scottish Government analysts had determined that the increase in the capped standard variable rate for dual fuel households and wider changes in energy pricing would increase fuel poverty in Scotland by 43%. Meaning that 36% of households would be in fuel poverty with almost 600k households in extreme fuel poverty
- Northern Ireland was estimated at 131,000 households in 2018, or 18 per cent of households.
- Wales was estimated at 155,000 in 2018, or 12 per cent of households;
- England was estimated at around 2.4 million in 2018, or 10.3 per cent of households

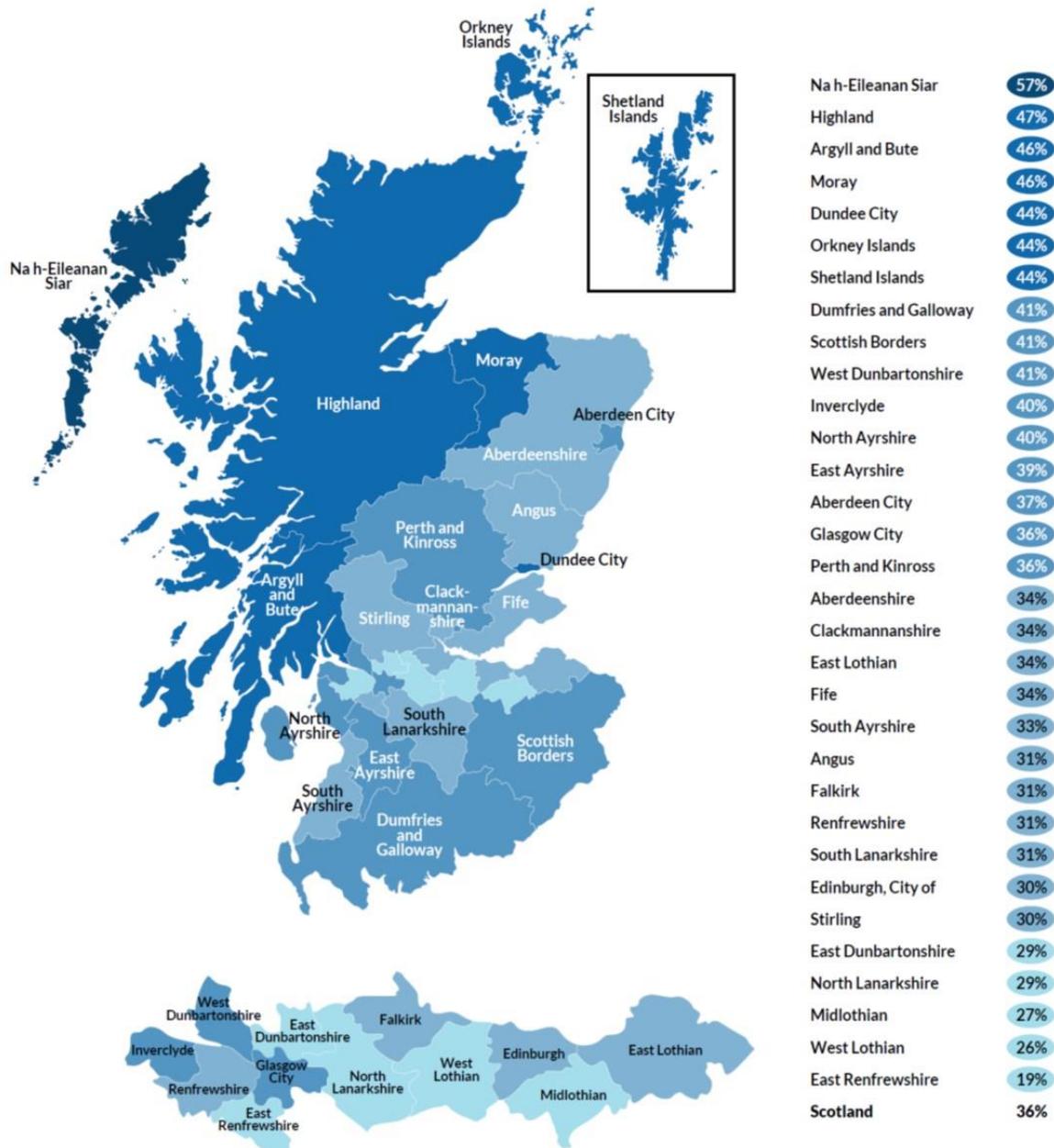
¹ <https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/1/>

² <https://www.ssen-transmission.co.uk/media/5261/ssen-transmission-tnuos-paper-february-2021.pdf>

³ Kate Forbes Spring Budget Statement February 2022 <https://www.gov.scot/publications/budget-statement-stage-3-2022-23/>

Diagram 1 – Energy Action Scotland extrapolation of Scottish Government data on Fuel Poverty

FUEL POVERTY BY LOCAL AUTHORITY



February 2022 Source: Statement by Cabinet Secretary for Finance and the Economy, Kate Forbes MSP

Diagram 1 shows the very real inequalities in the geographical spread of fuel poverty in Scotland. They tend to be highest in remote and rural Scotland, off-gas, homes that are electrically heated or heated by unregulated fuels such as oil or lpg.

The volatility in the energy market is having a detrimental impact on households. Energy costs will continue to rise over the next year, suppliers may continue to fail, people will have less choice. There is little to differentiate for households when the vast majority are paying the same rates for energy and suppliers are unable to offer effective competition. It was reported that energy market analysts are predicting that the next price cap could see an increase of a further significant amount to the average UK dual fuel bill in October. Whilst at this stage it is hard to predict where this will finally reach but analysts predict anything between £500-1000. This would be even more devastating for vulnerable households.

Millions of households in the UK are in energy debt already. ⁴ Scotland's Energy Consumers Commission is concerned⁵ It is likely that debt levels will rise significantly as prices remain high. Analysts are predicting that high prices, above 2020 levels could be set to persist for 2-3 years.

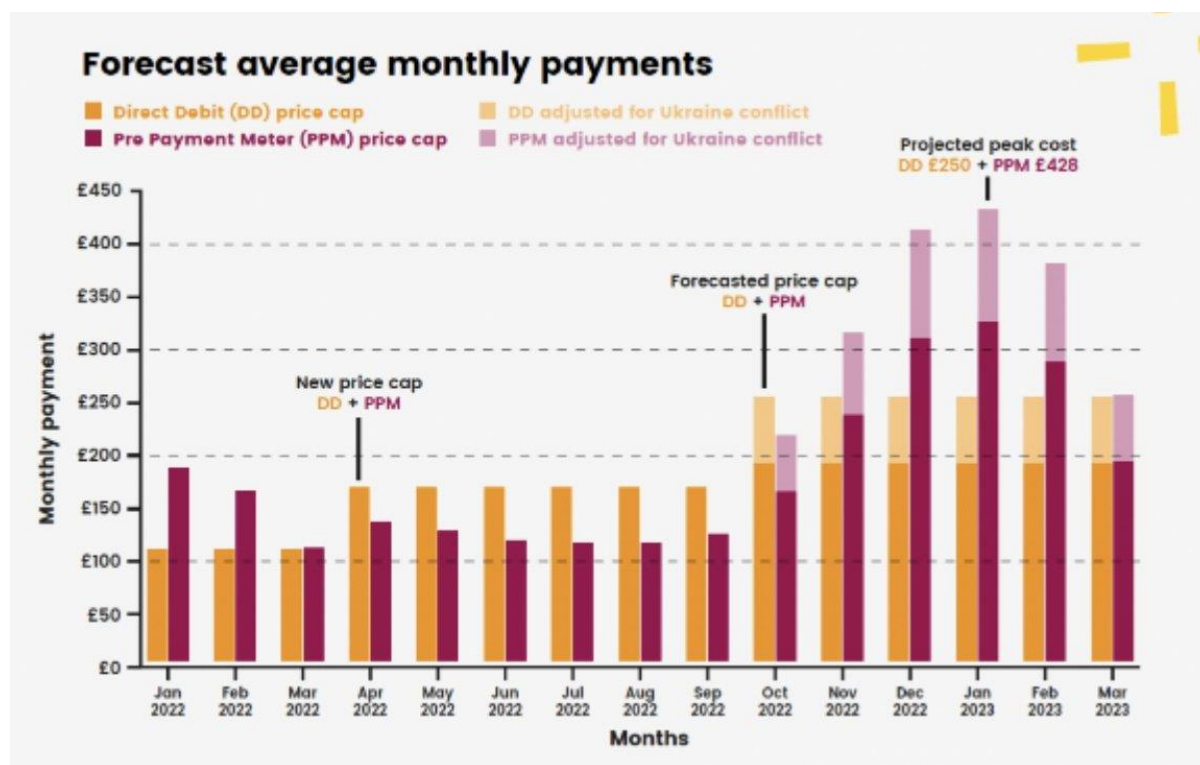
Pre-payment meter households, many of whom are on low incomes dealing with debt, are further disadvantaged with even higher costs than credit meter customers. Some of which could be addressed by increasing the rate that households can access smart metering.⁶ It was clear in research which we completed during 2021 that there were significant financial benefits to pre-payment households and to energy suppliers by accelerating the adoption of smart metering.

⁴ <https://www.cas.org.uk/news/increasing-numbers-people-missing-energy-bills>

⁵ <https://www.scottishhousingnews.com/article/energy-consumers-commission-warns-of-fuel-debt-risk-to-consumers>

⁶ <https://new.theclaymoreproject.com/uploads/entities/1230/files/Publications/Smart-Prepay-Full-Report.pdf>

Diagram 2 – Costs for Pre-payment meter households – Source - The Fuel Bank Foundation 2022



From Diagram 1, produced by the Fuel Bank Foundation⁷ shows that as prices rise the effect is acute amongst pre-payment household. Their energy costs are not spread evenly across 12 months as direct debit customers experience. In real cash terms to achieve the same levels of comfort prepayment households in the coldest months face incredibly high cashflow requirements. We believe that it is more likely that these households will go without, self-disconnecting from supply. It reduces consumption, reduces carbon but reduces health and wellbeing. It is not the sort of reductions that Scotland should celebrate.

At a recent training event for front-line advisers, working with people in challenging circumstances, provided insight into the very real ‘coping’ mechanisms that desperate households deploy. A sample of these quotes from advisers is provided as Appendix 1.

Scotland Fuel Poverty Strategy 2021

In December 2021 we welcomed the much-delayed fuel poverty strategy. Our charity has over the last 3-5 years helped to shape the direction of travel of fuel poverty debate, leading to the Fuel Poverty Act in 2019 and participating until its suspension in early 2020, the Fuel Poverty Advisory Panel.

Energy Action Scotland really does welcome in the new strategy. Increased investment for programmes to improve the fabric of people’s homes, advice services, opportunities to

⁷ The Fuel Bank Foundation, 2022, Fuel Crisis Report 2022 - <https://www.fuelbankfoundation.org/wp-content/uploads/2022/02/Fuel-Bank-Whitepaper-3.2.2022-fbf013-1.pdf>

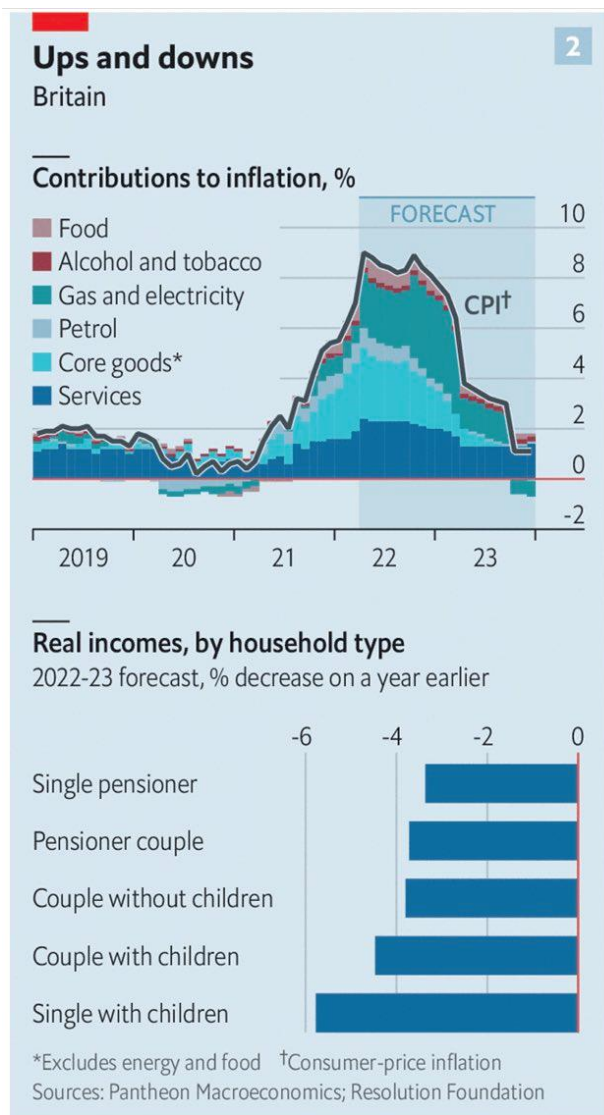
reform the Energy Performance Certificate process, taking responsibility for providing Winter Heating Assistance and, the role of crisis support for households in difficulty.

Nonetheless the act is clear that we have statutory targets to all but eliminate fuel poverty by 2040. We are a long way from that target and current market turbulence is likely to increase fuel poverty in Scotland which may take some considerable time to recover from. Scotland's fuel poverty target is 5% by 2040. This is ahead of the target dates for NetZero of 2045. Yet it is unclear how interim 2030 targets of no more than 15% of households in fuel poverty looks any way achievable. The Strategy already looks out of date, and it failed to anticipate the scale of the current crisis.

Scotland's Heat in Buildings Strategy identifies quite clearly what needs to change. But the estimated costs of £33bn are quite incredible and it isn't clear yet how this will be paid for which is more challenging as fuel poverty figures look set to increase beyond 1 in 3 households during 2022. It will be harder to engage with the most vulnerable and indeed the most in need of support as prices rise as they struggle to pay for essential warmth or manage energy debt. With costs rising per month for many middle-income families there may be a reduction in interest in borrowing or taking on additional debt with uncertain payback periods. More needs to be done to incentivise households to undertake insulation measures.

If we meet our NetZero ambitions, then consumption of energy should be lower. Whether costs fall in real terms over time is a far bigger question. But how we pay for the transition to NetZero will add to the costs for all consumers. We believe more should be done to protect vulnerable, low income, fuel poor households. From rebates to greater regulatory protections for these same households must be put in place to ensure there is a fair and just transition. The burden of costs should be determined by people's ability to pay. As diagram 3 shows the greatest detriment is faced by those on the lowest incomes whose incomes are falling in real terms. The diagram also shows the significant impact that energy costs have within overall inflation figures.

Diagram 3 – Cost of Living and Low Income Households – Source The Economist April 2022



The Economist

Current Crisis/ Winter 2021

The current volatility in the energy market is increasing wholesale prices and driving energy suppliers out of the market. Consumers are left to deal with this through higher bills. These are at unprecedented levels and set to rise even higher. There isn't a clear crisis response, one that recognises that this is not likely to be short lived.

An expanded level of financial support is needed in the short term but is likely to be unable to fully mitigate the current crisis. But it must be better targeted to help those that need it most and scaled to support those that need it. And we must do more to accelerate consumption reduction that does not reduce the levels of comfort required to maintain health and wellbeing. A new social contract that protects vulnerable households for the worst effects would be welcome.

Lived Experience

We support more work on lived experience. Our own work supporting vulnerable households with a cancer diagnosis has improved year on year based on listening to those that have been supported, the local trusted referral partners and the contractors that deliver improvements. We have helped hundreds of people and their families, many unfortunately with a terminal diagnosis, live in greater comfort and dignity. In determining solutions, we place people at the heart of that process with the best solutions for them.

In 2022 we have heard from families with dependents with conditions that require 24/7 care and necessitates the use of life preserving medical equipment. Yet, these families are no contemplating state medical care as costs soar. There is no quantum of support targeted at these households nor programmes that effectively support them.

Energy Use in the Home

We support that much more needs to be done to understand better the approaches required to enable households make better use of their heating and power systems.

There have been several pieces of academic research on this topic including work done by the University of Lancaster. In recent times work by Connected Response, working with Glasgow Housing Association has demonstrated that households can be supported to maximise their use of electric storage heating.

Retrofit of Existing Homes/ PRS/ Owner Occupiers

The Scottish Government's Heat in Buildings Strategy identifies just how challenging it will be to meet our NetZero ambitions. A £33bn estimated price tag is staggering and it is far from clear how homeowners, many of whom live in fuel poverty, will be engaged to go on this journey. The value identified of £1.8bn we believe is insufficient to bring about the scale of change required.

We are supportive of a practical introduction of new standards where this drives quality, provides confidence for the public and accelerates support to vulnerable and fuel poor households.

The Department of Business Economy and Industrial Strategy (BEIS) is widely reported as accepting that new standards will add to the costs of delivery and will reduce the rate at which homes can be improved. This is a real issue for rural Scotland, where Scotland has the highest rates of fuel poverty. The capacity to deliver change to new and exacting standards is low and without significant investment this is not likely to change. Trades people can more readily work in these communities in new build and private work where the retrofit standards do not apply. There are limited incentives for them to undertake training, certifications, and accreditations. Rural Scotland was already the most expensive location to deliver improvements. Inflation, the availability of materials and skilled workers will make it more difficult to reduce fuel poverty in the Western Isles (over 40%), Shetland (over 30%) and Orkney (over 30%).

It is incredibly disappointing that fuel poor tenants in private rented accommodation are a low priority with a further delay to the implementation of measures to improve the quality of their lives. Further delays will do nothing to improve the experiences of people in private rented accommodation.

The current proposed changes to the achievement of EPC 'D' and 'C', even if met, will not be sufficient to lift significant amounts of tenants out of fuel poverty. It is clear in the Scottish House Condition Survey and the Scottish Government Lived Experience research that many households in 2019, pre-pandemic, pre-energy crisis continue to endure fuel poverty whilst living in EPC 'C' properties. Rising costs are likely to increase the number of households in EPC 'C' now meeting fuel poverty definitions.

Hardest to Reach Groups/ Equality of access

Many of our members deliver very local services. They are trusted organisations in their communities. They have trained and motivated staff working to support people in some of the most challenging situations in Scotland.

This level of engagement can be often regarded as expensive yet through social return on investment, as demonstrated through the industry initiatives funded through the Warm Home Discount that huge benefits are derived.

Organisations require long-term commitment to ensure that local trusted advice organisations are supported. It takes time to build the capacity of individual advisors to a suitable standard and the current nature of funding works against that provision. They can be the key to unlocking NetZero at a household and community level given their trusted position and desire to improve the lives of people.

Net Zero/ Just Transition

The Fuel Poverty Strategy joins several other overlapping and relevant policy areas. The Just Transition Commission and its recommendations, the Heat in Buildings Strategy, Housing 2040, the Heat Networks Act, Scotland's Climate Change and NetZero ambitions and targets.

It is disappointing that the strategy seems to accept and promote an emissions reduction first approach as its tactic to achieve a reduction in Fuel Poverty. It is positive that it does accept that there is a tension between climate change and fuel poverty policy, but it is not clear how that tension will be resolved.

The energy performance of buildings is only one aspect of fuel poverty, and the strategy acknowledges this but is vague on how tensions will be addressed where costs impact on already fuel poor households. The Scottish Government's decision to suddenly stop support for the replacement and upgrading of oil and LPG heating systems is not consistent with a just transition. Many households with oil and LPG are in fuel poverty and could benefit from system upgrades and associated efficiency upgrades whilst programmes of support that might enable alternative systems are geared.

In a just transition we would expect sufficient notice, a clear plan of action and excellent communication to support households. We are concerned that in an emergency such as a loss of a heating system that support will not be sufficient to support those households where their options are limited, and their needs are immediate.

Energy Action Scotland believes that the priority must be on eliminating fuel poverty which in turn addresses our NetZero ambition. Far too many lives are lost each year, and in during the winter to deliver support in anything other than a person centric approach.

Financial benefits and support for households

Energy Action Scotland is concerned about the uncertainty that surrounds the future delivery of Warm Home Discount (currently £140) support to households. Neither the Heat in Buildings Strategy nor the Fuel Poverty Strategy shed significant light on the role that this support will play in helping fuel poor households. The next phase of Warm Home Discount was due to commence on 1 April 2022 and customers in Scotland deserve to know what will happen. People on the low incomes, vulnerable households manage their budgets to every penny. WHD is an important support. This is still unclear for 2022 and the programmes of support, which can improve the quality of homes, are diminished as a result.

Energy Company Obligation

The Energy Company Obligation (ECO) is a UK government energy efficiency scheme designed to help reduce carbon emissions and tackle fuel poverty by placing legal obligations on larger energy suppliers to deliver energy efficiency measures to domestic premises. ECO is distributed via a grant and is paid for by a levy on all domestic electricity bills. It is the single largest allocation of funding, worth over £50million per annum in Scotland.

ECO4

ECO4 is final phase of the ECO. It is due to start on 1 April 2022 and run until 31 March 2026.

It is unclear what will be delivered in Scotland, the principle is right, better targeting, those that need help the most get the maximum support. Concerns about how you identify the worst home where there isn't a complete register of energy performance certificates or similar.

Home Energy Efficiency Programmes for Scotland

The Home Energy Efficiency Programmes for Scotland (HEEPS) is the Scottish government initiative to tackle fuel poverty. It is a cluster of programmes currently including:

- area-based schemes, managed by local authorities
- Warmer Homes Scotland, managed by Warmworks Scotland
- a loans scheme, managed by Home Energy Scotland

Area-based schemes

HEEPS area-based schemes provide energy efficiency measures in deprived areas. Local authorities choose which areas are eligible and what measures are available. Whether you qualify depends on your postcode. You may qualify whether you own or rent your home.

EAS Commentary: This is a really positive programme working systematically in communities, targeting those in more deprived areas. Budgets have increased. However, there are consistent issues of underspending within this programme. More support is needed for local authorities to ensure that budgets are maximised.

Warmer Homes Scotland

Warmer Homes Scotland aims to help low-income and vulnerable homeowners and private sector tenants improve the energy efficiency of their homes. Measures available include improvements in central heating systems, insulation improvements, draught proofing and installation of renewable technologies.

If you are a private tenant and your landlord has statutory duties under the statutory Repairing Standard, you cannot receive measures that your landlord is legally obliged to provide. You are still eligible for other measures available under the scheme if they are recommended for the property – eg, renewables.

EAS Commentary: To be eligible you need to meet a Qualifying benefits test. But essentially it is targeted at low-income households or people with vulnerabilities. Budgets have been boosted across all SG programmes and are in the region of £1.8bn across the current parliament. Given the scale of the challenge this (currently estimated to be almost 600k extreme fuel poor households) it still falls considerably short of where we need to be to make progress. Estimates suggest that we'd need about double that budget across the same period to make any progress.

We need to recognise that over time it will become more expensive to derive the same benefits. Once the low hanging fruit has been addressed it becomes much more expensive per property or per tonne of carbon to achieve the same impact.

Home Energy Scotland loan scheme

Interest-free loans are available under HEEPS for owner-occupiers and private sector landlords to improve their properties using a variety of measures such as solid wall insulation, double glazing and new boilers. It also includes improvements such as home renewable systems, connection to a district heating scheme (powered fully or partially by a renewable energy source) and energy storage systems. Cashback grants are available for certain energy efficiency improvements.

The repayment period varies based on the amount borrowed. If you take out a higher value loan, you can pay it back over 12 years. Loans scheme is delivered by the Scottish Government's Home Energy Scotland service⁸ which is delivered by Energy Savings Trust and its sub-contractors SCARF, Wise Group, Changeworks and the Energy Agency.

⁸ <https://www.homeenergyscotland.org/>

Commentary: Loans still require households to be able to access finance to pay the difference or for elements where there is no support. As domestic budgets tighten there will be an impact on the take up rate of measures especially those with the longest payback periods.

Happy to discuss any of this further.

Submitted by

Frazer Scott, CEO Energy Action Scotland

21 April 2022

Appendix 1 - Front-line experiences

- They see people (usually older people) opening the fridge to get out milk for a cuppa – and the milk is the **only thing in the fridge**. A couple of years ago, there would be other foodstuffs in these fridges
- A housing officer reported two current clients, one of whom **hasn't switched on** his heating **since 2010** and another who has been **self-disconnected** from gas/electricity supply since **2011**. In both instances they maintain they can't afford to pay
- Vulnerable 20 year old lady who just can't afford to heat her home - regularly comes home from work and **wraps herself in a duvet**
- Another family (with young children) also **burn floorboards and clothing**
- Participant wears **several layers of clothing** and a big dressing gown (and hot water bottle!) about the house to try and save money
- Client's homes often feel cold, and many say they have put heating on especially because front line workers are visiting
- Older couple (long term illnesses) with no central heating – not eligible for grant/ scheme support. **Living in one room** – damp because no ventilation, all 'draughts' sealed off to keep room warm
- Many of the people that advisers visit are now only **heating one room**
- Single teen mother with young baby received a 4-month benefit sanction. She had no food in the house, no nappies for the baby and no heating or hot water because she was **unable to top up** her prepayment meter.
- One family **burned their furniture** to keep warm because the weather was freezing and they had a sick child in the house. They had no electricity so no heating, hot water, etc. because their PPM key wouldn't work. They were unable to contact anyone over the weekend
- An elderly gentleman self-disconnected from supply and **burned all of his furniture** and some of the floorboards to keep warm. His sister who lived nearby had been moved into care after a severe stroke – she had been his only support. His situation was discovered when emergency services were evacuating homes because of flooding in the area
- A person with **Aspbergers** was moved from DLA to JSA – he didn't qualify for PIP – and his income fell to £52 pw. He no longer uses his heating and boils a kettle for hot water to wash and shave
- Workers at a foodbank/food kitchen/drop-in centre regularly see people **begging on the streets** to pay for fuel. They are also seeing an increasing number of people coming into the centre last thing on a Saturday because they have no money for food or fuel
- One support worker stated categorically that “the people we're working with are **getting poorer**, and more and more often they can't cope with life in a problem-solving way”

Appendix 2 – Standing Charges Source Ofgem 2022

- London: up 8p a day to 31p - a 38% increase
- Eastern: up 13p a day to 36p - a 58% increase
- South East: up 17p a day to 40p - a 73% increase
- North West: up 17p a day to 40p - 73% increase
- Southern: up 18p a day to 41p - an 80% increase
- Yorkshire: up 21p a day to 46p - an 81% increase
- North Scotland: up 22p a day to 48p - a 83% increase
- Northern: up 21p a day to 46p - an 85% increase
- East Midlands: up 20p a day to 43p - an 88% increase
- Midlands: up 22p a day to 46p - a 92% increase
- South Wales: up 22p a day to 46p - a 94% increase
- Southern Scotland: up 24p a day to 47p - a 100% increase
- South Western: up 25p a day to 49p - a 101% increase
- North Wales & Merseyside: up 23p a day to 45p - 102% increase

