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Convener
Net Zero, Energy and Transport Committee

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Response to the Net Zero, Energy and Transport Committee's Report on Inquiry into Energy Price Rises

Dear Edward,

I welcome the findings of the Committee during what is an extremely challenging time for Scottish households following the steep energy price rises we have seen in recent months and the high price consumers will have to continue to pay throughout the Winter months. We know that consumers are concerned about these price increases and that there are many unanswered questions in regards to the nature of the support available over the coming months to mitigate these impacts.

In light of the severity of the situation, the First Minister chaired an energy summit on August 23rd and a consensus was reached on further work and action between energy companies, advice organisations and the Scottish Government in order to ensure that consumers in Scotland are fully aware of the support available to them and the process for accessing it. A follow-up meeting to the summit will take place later in the Autumn in order to allow full analysis of the impact the Energy Price Guarantee will have on industry, the third sector and consumers.

As you're aware, regulation of the energy market is reserved meaning that the UK Government holds most of the levers to address the pressures on energy bills. While the UK Government's long anticipated announcement may limit the impact of the energy price crisis, the (average) £2,500 that domestic consumers will be expected to pay is still unsustainable for many households. This announcement has also come too late for many households across Scotland who are already struggling to pay their bills and heat their homes. In addition, the announcement of an additional £100 of support to consumers in unregulated energy markets will not cover the costs they will incur over those who are protected within these markets. Furthermore, funding a price freeze by increasing borrowing will see the UK Government condemn low and middle income households to higher taxes and debt. This announcement is essentially passing on the cost of dealing with the energy crisis to the next generation.

In comparison, other European Governments have taken more significant action to mitigate price increases. Germany has announced plans to slash the sales tax on gas to 7% from 19% until March 2024 and France has capped electricity price increases to 4% until the end

of the year. Furthermore, the European Commission has proposed a temporary revenue cap on 'inframarginal' electricity producers that will be fed back to support consumers.

Within this context, we know that the Scottish Government must use its available powers to the fullest to support households. We will do this by delivering a range of actions aimed at mitigating the impacts of these energy price increases in the short and longer term both financially and, in terms of providing a robust system of advice provision to consumers most in need. These actions are set out later in this letter in response to the recommendations of the committee.

We would welcome further engagement with the Committee and any other stakeholders as we look to support consumers through the challenging months ahead.

1. Actions to Help Households this Autumn And Winter

1.1 Committee Recommendations

- The Committee recognises that the Scottish Government was under pressure earlier this year to come up with quick responses to fast-rising energy bills. Some of these measures (such as council tax relief for some) were not particularly targeted, raising questions as to whether resources always went to the households most in need.
- Whilst the situation remains urgent, the Scottish Government should take the opportunity to apply more considered analysis about targeting further resources over the coming months. We agree with the Scottish Government on the need to take action through the welfare provisions that are available, and call on the Scottish Government to set out how social security and other assistance over the coming months will be targeted at those likely to be in most need: lower-paid families with young children, those with disabilities and health conditions, older people, and those identified as experiencing or at risk of experiencing fuel poverty.
- The Committee also asks the Scottish Government to clarify what action it is taking this winter to support those using other fuels, who are not on the gas grid. In addition, longer term energy solutions will be required for such households.
- We also ask the Scottish Government whether it has been able to identify funding for further support measures within current spending and additional funding made available as a result of the UK Government announcement on Household Support Fund on 26 May 2022.
- It is important to note that some people in fuel poverty may not be eligible to benefits or otherwise be "visible" as in need of targeted assistance. This points to the importance of having accurate and timely data on fuel poverty and other indicators, which the Committee recognises is challenging in a crisis situation. The Committee requests an update from the Scottish Government as to how it is monitoring fuel poverty rates and other relevant indicators of potential need.
- In addition the Committee recognises the difficulties of breaking down fuel poverty data by gender. However we ask the Scottish Government whether it would be possible to disaggregate data to include the gender of the main householder if they are a lone parent or carer.

- The Committee notes that the Fuel Poverty Strategy is intended to be the main coordinating document in relation to a number of key issues discussed in this report that might mitigate the current crisis (e.g. advice and assistance; home insulation, effective partnership working). The Committee asks the Scottish Government for an update on the Strategy and for its views on whether it is satisfied that the Strategy remains fit-for purpose in this changed landscape.

1.2 Scottish Government Actions

The Scottish Government is doing everything within its powers and fixed budgets to ensure people, communities and businesses are supported as far as possible. Through the budget for 2022/23 the Scottish Government has allocated almost £3 billion to a range of support that will contribute to mitigating the impact of the increased cost of living on households. This includes work to tackle child poverty, reduce inequalities and support financial wellbeing, alongside social security payments not available anywhere else in the UK.

Through the Scotland's social security system we are maximising our devolved powers to help those most in need, providing support that is not available elsewhere in the UK. This includes:

- increasing the Scottish Child Payment to £25 per child per week and extending this to include under 16s. This is an increase of 150% in just 9 months, and will increase eligibility to around 407,000 children.
- providing support to 145,000 school-age children and young people through Bridging Payments worth £520 per year – putting £150m in the pockets of low income families across 2021 and 2022.
- As well as Carer's Allowance Supplement, and mitigating the bedroom tax for around 91,000 households.

From February 2023 our new benefit will provide a stable, reliable £50 payment each winter irrespective of the temperature, or where recipients live. This is an investment of £20m each year to support winter energy bills for around 400,000 low income households. This compares with just 13,000 Cold Weather Payments made by the UK Government in Scotland in 2021-22 – a scheme for which requires it to be sufficiently cold for 7 days running.

While the total amount of Cold Weather Payments made to Scottish residents in some years has exceeded £20m, in 4 of the last 10 years low income households received less than £1m to help with their heating bills.

Our decision to break the link to weather, to provide stable, reliable payments has been welcomed by people with lived experience of the benefits system. 90% of respondents to the Social Security experience panel survey – people with lived experience of the benefits system – agreed with the plan to remove the 'cold spell' requirement and provide reliable payments instead.

With the UK Government holding most of the powers needed to tackle the cost of living crisis, as well as borrowing and resourcing powers, the Scottish Government is continuing

to urge them to use all the powers and fiscal headroom at their disposal to address the long term impacts of rising prices and provide immediate support to struggling households.

We have also raised the issue of UK Government support for energy consumers being granted twice to owners of second homes and have committed to working with local authorities to explore means of preventing this from occurring.

In the meantime, during this extremely challenging period, the Scottish Government will continue to use our limited budget and constrained powers to work for people and help cushion the impact of UK Government policies.

The Fuel Poverty Strategy sets out a range of comprehensive actions to address the four drivers of fuel poverty and achieving of the statutory targets to 2040. The Scottish Government is in the process of formally consulting with the Statutory Fuel Poverty Advisory Panel on the strategy as required by the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019. The 2019 Act also provides for the strategy to be kept under review and revised, if necessary, at any time.

Fuel poverty rates and the characteristics of fuel poor households are published annually through the Scottish House Condition Survey (SHCS) key findings report – a National Statistics publication. Due to the impact of the COVID-19 pandemic the 2020 SHCS was not completed. Therefore, the most recent data is from the 2019 SHCS and was published in 2020. The 2021 SHCS went ahead using an external+ approach. This involved an external-only inspection, supplemented with alternative sources of data (e.g. from the Energy Performance Certificate) and the householder providing information to surveyors via telephone. The key findings from the 2021 SHCS, including estimates of fuel poverty in 2021, are expected to be published in February 2023. The fieldwork for the 2022 SHCS is in progress and with the easing of the restrictions in place in response to the Covid-19 pandemic it has been possible to return to full in-home surveying.

Following the announcement of the Energy Price Guarantee by the UK Government on 8 September 2022, which will see the Ofgem price cap for the average dual fuel customer frozen at £2,500 for two years from October 2022, the Scottish Government has undertaken analysis to estimate the number of households in Scotland that will be in fuel poverty when this takes effect. This analysis also accounts for the support for households that was announced by the UK Government at the end of May 2022, e.g. the support available to all households through the Energy Bills Support Scheme, the one-off cost of living payments, and the Scottish Government's £150 council tax rebate for those in council tax bands A to D or in receipt of council tax reduction.

This analysis shows that around 860,000 households (35% of all households) will be in fuel poverty when the Energy Price Guarantee takes effect in October 2022. Around 600,000 of these households (24% of all households) will be in extreme fuel poverty. Indeed, of the 860,000 households estimated to be in fuel poverty, 69% will be in extreme fuel poverty.

It is estimated that the Energy Price Guarantee will prevent around 150,000 households from becoming fuel poor compared to the previously announced price cap of £3,549. However, freezing the price cap at £2,500 will increase fuel poverty by around 110,000 households and extreme fuel poverty by around 150,000 households compared to the April 2022 price cap of £1,971.

These estimates are based on the Scottish definition of fuel poverty as set out in legislation, where a household is in fuel poverty if:

- in order to maintain a satisfactory heating regime, total fuel costs necessary for the home are more than 10% of the household's adjusted (i.e. after housing costs) net income (and more than 20% in the case of extreme fuel poverty); **and**
- if, after deducting those fuel costs, benefits received for a care need or disability and childcare costs, the household's remaining adjusted net income is insufficient to maintain an acceptable standard of living.

Under this definition, a household's adjusted after housing costs net income is net of income tax, national insurance contributions, mortgage or rent payments, childcare costs, council tax, water and sewerage charges.

The remaining adjusted net income must be at least 90% of the UK Minimum Income Standard to be considered an acceptable standard of living, with an additional amount added for households in remote rural, remote small town and island areas. In 2021, 90% of the UK Minimum Income Standard ranged between £8,140 and £21,160 depending on the household type and between £10,260 and £24,590 to reflect the higher cost of living in remote rural, remote small town and island areas.

An article which appeared in Shetland News on 30 August reported that Shetland Islands Council estimated that by April 2023 the average energy cost per year for households in Shetland would be £10,300 and that households would need to earn £104,000 a year to avoid fuel poverty. This was also picked up by the BBC and was raised in the debate in parliament on Wednesday 7 September on the programme for government and the cost of living. This is not consistent with the Scottish definition of fuel poverty, as such households would have a residual income of £93,700 after fuel costs and even after deducting all other costs as set out in the definition, would have a remaining adjusted net income far in excess of the minimum required to maintain an acceptable standard of living.

Data from the SHCS cannot identify households with a lone carer. Additionally, single parent households make up a small amount of the households surveyed each year. Therefore, in order to analyse the fuel poverty rate of single parent households broken down by gender three years of data (2017-2019) was pooled.

On average over 2017-2019 the fuel poverty rate for female single parent households was 35% (+/- 5%) compared to 20% (+/- 10%) for male single parent households. As three years of data has been pooled to produce these estimates, and due to the methods used in the analysis of fuel poverty rates under the Energy Price Guarantee it is not possible to provide more up to date estimates.

We have extended our Fuel Insecurity Fund through 2022/23, by making available a further £10m to Third Sector Organisations to support those facing fuel insecurity including those using solid/ liquid fuels. These households often live in remote and rural communities and are not currently covered by Ofgem protections.

We know that consumers using heating oil, LPG and other unregulated fuels for heating are concerned about the price rises we are seeing considering the lack of regulatory protection. We have explored the potential for regulation of this sector with the UK Government however have been informed that there is no appetite to do so.

2. Warm Homes Discount Scheme

2.1 Committee Recommendations

- The Committee is concerned by evidence that uncertainty over the future of the Warm Homes Discount Scheme (including whether it will be devolved) has sometimes caused messaging and delivery problems for advice providers at the front line. We ask the Scottish Government, for now, to look for now past any differences they have with the UK Government about the Scheme's future, so as to help provide clear messaging about its availability to advisors and consumers. (Our letter to the UK Government contains a similar message.)

2.2 Scottish Government Actions

The Scottish Government put forward proposals for a more flexible WHD scheme at the start of 2021. The UK Government subsequently published draft regulations that only provided for an England and Wales scheme. We wrote to the UK Government three times seeking agreement to our proposal but have had no answer on this point. Only in April did they respond to our repeated written requests to say how they would enable the previous WHD scheme to continue in Scotland.

The Scottish Government agree that it would be better for consumers and advisors if there were greater certainty about energy rebates and a fairer deal for fuel poor households. However the powers to do this are wholly reserved by the UK Government and provide a complete veto over any scheme we might propose. We agree it would be far preferable for the Scottish Ministers to simply decide upon these matters; or for the UK Government to work with us to deliver improvements, as promised by the Smith Commission.

3. Energy education and advice

3.1 Committee Recommendations

- The Committee recommends the Scottish Government should run a high profile national public information campaign on saving energy in the home this autumn. In so doing, we ask the Scottish Government to note expert evidence collected during this inquiry about practical measures people can take.
- Over this coming autumn and winter the Scottish Government must also ensure that fuel poverty support and advice services are properly funded, so that everyone in Scotland looking for help can find it. Home Energy Scotland in particular needs to partner with older peoples' organisations and target older people to increase awareness and uptake. Provision of advice to those on prepayment meters about energy efficiency and support available should also be prioritised given their additional vulnerability as discussed below.
- The Committee recommends that, as a matter of urgency, the Scottish Government work with agencies and experts to review how avenues of funding and support are communicated to consumers, in order to make this as simple and joined-up as possible. We recommend that this includes examining how advice on this could be provided at points in the system where there is already established local public engagement.

- The Committee questions whether the scale, shape and pace of services providing advice are adequate to meet the size of the challenge and would welcome the view of the Scottish Government on this.

3.2 Scottish Government Actions

The Scottish Government recognises the importance of clear and accurate information provision and signposting to help people access existing energy support services. That is why Ministers have invested annually in a national Home Energy Scotland and Warmer Homes Scotland marketing campaign. We are currently reviewing options for how best to efficiently and effectively promote the range of advice and support available through these schemes over the coming months in light of the on-going Cost of Living crisis.

Home Energy Scotland works with a number of trusted partner organisations including health and social care organisations, local authorities, charities, food banks etc. to build referral pathways for vulnerable householders. This helps to ensure that those most in need of help, including older households, are able to access the support available from Home Energy Scotland. While the majority of householders contact Home Energy Scotland through the well-publicised freephone number, online or through outreach activity, a substantial number are referred to Home Energy Scotland from other organisations who have access to and are trusted by vulnerable householders. HES is also the main referral point our national fuel poverty scheme, Warmer Homes Scotland, which is designed to help those living in, or at risk of, fuel poverty through installing insulation and heating measures in to individual homes.

Earlier this year, we committed to expanding the Home Energy Scotland advice service by 20%. HES advice capacity has increased in the last three years with the target number of households for advice and support rising from 77,000 in 2020-21 to 132,000 following the 20% uplift - an increase of 12000 on 2021-22. This growth has been enabled through increased funding and therefore advisor capacity in the last two years.

In response to the Cost crisis, we recently committed £1.2 million to be distributed across energy advice services for both households and small businesses across Scotland.

This increase in spending will expand HES capacity to 137,000 this year. We also fund Advice Direct Scotland (ADS) to assist consumers in resolving issues in regards to their energy systems, these issues range from complaints with their energy suppliers to network outages. ADS can also refer consumers facing significant risk of detriment to the Extra Help Unit who provide additional support to consumers struggling to pay their bills and heat their homes.

4. Energy efficiency and retrofitting

4.1 Committee Recommendations

- The Committee welcomes the Scottish Government's £1.8bn investment in home heating and insulation services but is concerned this is not being accelerated in response to the crisis. We request an update from the Scottish Government on aspects of the programme that could be prioritised over the rest of this year.
- Following on from our discussion on the importance of expert advice for householders, we note that consumer engagement with agencies or third sector experts advice on energy consumption and funding support is an opportunity to provide further advice on home insulation or home energy decarbonisation, and any

support available for these. These are both key energy security goals and net zero goals for this decade. Evidence to our current inquiry into the role of local government and its cross-sectoral partners in financing and delivering a net-zero Scotland has made clear that householders are looking for authoritative and clear public signalling on decarbonisation and other net-zero measures.

- The Committee also asks the Scottish Government what role its proposed National Public Energy Agency could play in this work

4.2 Scottish Government Actions

The Scottish Government's Heat in Buildings Strategy, published 7 October, sets out actions to decarbonise Scotland's building stock in line with our legislated climate change targets. To meet the buildings sector emissions envelope in the Climate Change Plan, at least 1.2m existing buildings need to switch to a zero emissions heat supply by 2030, and the remaining 1.5m by 2045 to reach net zero. At present, there are an estimated 3,000 zero emissions heat installations per annum.

In the Shared Policy Programme, our capital support commitment for 2021-2026 is to invest at least £1.8bn. Our key commitments are:

- Phasing out the need to install new or replacement fossil fuel boilers, in off-gas from 2025 and in on-gas areas from 2030, subject to technological developments and decisions by the UK Government in reserved areas.
- Introducing primary legislation, subject to consultation and to limits on devolved competence, that provides the regulatory framework for zero emissions heating and energy efficiency, and underpinning powers to support this transition and ambitious programme.
- Developing and agreeing through consultation a series of phased targets starting in 2024, with the most difficult buildings like hospitals being decarbonised by 2038, and for all publicly-owned buildings to meet zero emission heating requirements, with a backstop of 2038.

We are committed to delivering a Just Transition as we accelerate the transformational change required in how we heat and use energy in our homes and buildings. The National Public Energy Agency will help us to achieve this ambition by bringing new coordination and leadership to our existing energy efficiency and heat decarbonisation advice and delivery programmes. This will ensure that people can continue to access the help they need, when they need it throughout the transition process. This work will be guided by key principles that seek to align the heat decarbonisation and fuel poverty agendas, as set out in the Heat in Buildings Strategy.

5. Support from energy companies

5.1 Committee Recommendation

- The Committee is concerned many users of prepayment meters will have been left especially vulnerable by recent events, as they already tend to pay more for their energy bills, with little power to change this if they wish to. There is a real risk of significant numbers disconnecting, and going without heating this autumn and winter, with untold consequences. Some will already have done so.

- The Committee asks the Scottish Government what steps it is taking to monitor how the crisis is affecting households with prepayment meters specifically, and to track how many are disconnecting. We also ask the Scottish Government if it has considered making representations to power companies, to Ofgem and to the UK Government about creating a right, under appropriate circumstances, to have a prepayment meter removed free of charge, in response to the current crisis and on grounds of general fairness.
- The Committee recommends that if making such representations, the Scottish Government should suggest that where meters are being removed and replaced, smart meters should be installed as standard.

5.2 Scottish Government Actions

We know that consumers using prepayment meters have seen increases to even higher costs than those paying by direct debit and this has particular impact on those least able to afford their energy bills.

In 2020 Ofgem introduced new requirements on energy suppliers to take additional steps to support consumers at risk of self-disconnecting and to provide additional emergency credit. Whilst these requirements will not remove the risk of self-disconnection, they do reduce this risk to some extent. The Scottish Government will monitor the situation and remain in close contact with Ofgem, energy suppliers and consumer representative organisations.

In cases in which consumers choose to move from prepayment meters, suppliers should offer smart meters to all customers. Recent research suggests some consumers have a reluctance to take up smart meters however and these consumers cannot be forced to have one installed.

As part of our £10m Fuel Insecurity Fund, which has been provided to the Fuel Bank Foundation (FBF); the primary focus of the FBF is on providing same day support to people with pre-payment meters at imminent risk of self-disconnection. SG funding has also allowed them to establish a new service that helps households reliant on solid or liquid fuels, primarily located in rural and island communities where fuel poverty is high. Such fuels are currently unregulated and have seen big increases in cost in recent months.

It is worth highlighting that, at the energy supplier summit hosted by the first minister in August 2022, energy suppliers committed to minimising disconnections throughout the Winter period.

6. Locking in lower energy prices for the longer term

6.1 Committee Recommendations

- The Committee asks the Scottish Government what representations it proposes to make in the UK Government's Review of Electricity Market Arrangements in Great Britain. The Committee considers there is now a principled case to be made for decoupling electricity and gas prices and allowing electricity to settle at a lower market rate. In the long term we believe this will be fairer for consumers and for net zero outcomes.

6.2 Scottish Government Actions

We welcome the Advisory Group's recognition that energy bill reform is required to properly incentivise low-carbon heating, rebalancing the costs on energy bills could reduce the premium paid by households using electric heating and incentivise the deployment of low and zero emissions heating, however greater urgency and clarity is required. We have engaged with the UK Government on their commitment to rebalance gas and electricity tariffs away from electricity bills, and have met with BEIS to request details of how this rebalancing will be structured. We have several times called for the publication of the delayed Affordability and Fairness Review from BEIS which is expected this year and will continue to seek more information from the UK Government to ensure that this rebalancing takes full account of the needs of Scottish consumers.

UK Government's Review of Electricity Market Arrangements consultation was published on 18 July but it contains no further details on the government's commitment to rebalance the costs placed on energy bills away from electricity to incentivise electrification across the economy and accelerate consumers' and industry's shift away from volatile global commodity markets.

7. Future Energy Mix

7.1 Committee Recommendations

- The Committee considers that the crisis underlines the need for an acceleration towards increased usage of domestic renewable energy and more efficient energy use generally, in order to escape dependence on volatile international fossil fuel markets.
- Thanks to its geography and established skills base in green energy, Scotland is exceptionally well placed to grow its renewables sector further, provided the right conditions are in place.
- Factors holding the sector back include a sometimes sclerotic planning system and a decrease in the number of planners. There is also a need to rapidly grow skilled jobs in areas such as installing decarbonised heat in the home and retrofitting and to roll out assistance to householders in these areas at pace. These have been key themes arising during our ongoing inquiry on the role of local government and its cross-sectoral partners in financing and delivering a net-zero Scotland, as well as in this inquiry.
- The Committee accepts that there are differences of views on the role other sources of energy such as nuclear power, hydrogen and North Sea oil and gas can play, alongside renewables, in delivering future energy security, and more affordable bills for consumers. We expect to revisit these matters in more detail over the course of this session, in the context of our ongoing work monitoring Scotland's net zero targets.

7.2 Scottish Government Actions

The pace of the transition to decarbonise heat requires a substantial growth in supply chains, particularly in the availability of skilled heating and energy efficiency installers. The Scottish Government are exploring a number of avenues to build upon the current skills base.

The Climate Emergency Skills Action Plan (CESAP) sets out immediate actions to support the development of skills needed to meet the climate change challenge.

Through CESAP we have established a Green Jobs Workforce Academy existing employees, and those who are facing redundancy, to assess their existing skills and undertake the necessary upskilling and reskilling they need to secure green job opportunities as they emerge.

We have supported skills development within the energy, engineering, and construction sectors by providing Energy Efficiency Transition Support and Heat Pump Training through the National Transition Training Fund (NTTF).

Through the Warmer Homes Scotland programme we delivered over 1,000 training opportunities, 119 trade apprenticeships and created 611 new jobs between 2015 to 2020.

We have also partnered with Scottish Renewables and Skills Development Scotland to undertake a 'Heat in Buildings Workforce Assessment Project' which will help us better understand the timing of workforce growth and how best to support people transitioning into key sectors.

MICHAEL MATHESON