

Consultation to review the Energy Industry Voluntary Redress Scheme

Energy Action Scotland Response

Energy Action Scotland is the Scottish charity dedicated to ending fuel poverty. Energy Action Scotland has been working with this remit since its inception in 1983 and has campaigned on the issue of ending fuel poverty and delivered many practical as well as research projects to tackle the problems of cold, damp homes. Energy Action Scotland works with both the Scottish and the UK Governments on energy efficiency programme design and implementation. Energy Action Scotland welcomes the opportunity to respond to this consultation.

Energy Action Scotland's response focuses primarily on those areas that it considers may impact most on fuel poor and vulnerable consumers. Energy Action Scotland is not a health organisation, but we are concerned about the health impacts of living in fuel poverty and that respiratory conditions which are exacerbated by living in a cold, damp home make up a high proportion of Scotland's excess winter deaths, which are linked to living in fuel poverty.

A household is considered fuel poor in Scotland if the household's fuel costs are more than 10% of its income and what is remaining is not enough to maintain an acceptable standard of living.¹ Fuel poverty is driven by four main issues, these being high energy costs, low disposable incomes, poor energy efficiency of homes and how energy is used in the home.

We believe that funding programme should prioritise vulnerable and fuel poor households with the sort of support that provides real and lasting benefits.

We welcome this opportunity to contribute our feedback on the Redress Scheme to date. The scheme offers invaluable support to charities which in turn are working to improve the experiences of energy consumers.

We have answered several of the key questions raised in this document below:

Question 1. Do you consider the funding split between the Main Fund, Innovation Fund and Decarbonisation Fund to be appropriate?

Yes. We recognise that the current circumstances have created significant additional detriment for consumers, particularly those who are vulnerable and/or fuel poor. However, it is also essential that future challenges are also addressed within the fund. Vulnerable, fuel poor energy consumers continue to face considerable detriment. In Scotland over 25% of households experience fuel poverty.

¹ Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019

Scottish Government estimates suggest that this could rise to almost 30% as a result of the economic and social impact of COVID-19. We believe that a 70:30 split to be appropriate. There seems no rationale at this stage to reduce the level of targeting to vulnerable consumer groups from 70%. Indeed, the splits between Innovation and Decarbonisation seem artificial and could have been merged. It is likely that any support for decarbonisation is likely to be in terms of innovation as other public schemes focus on the implementation and proliferation of tried and tested technologies. 30% of funding across Innovation and Decarbonisation applying to a wider group of consumers seems over-generous.

We believe that there is a risk that the decarbonisation fund is the least likely to directly benefit vulnerable energy consumers and needs to clearly demonstrate its benefits before any increase in funding could take place.

There needs to be clear criteria for Decarbonisation projects given the existing targets and obligations that apply within the energy industry.

Question 2. Do you consider the proportionate funding split between vulnerable consumers and all energy consumers to be appropriate? i.e. 70% to vulnerable consumers and a total of 30% to all energy consumers.

Referencing our response to Question 1. There appears to be no rationale to support a reduction in the allocation of funds to support those in vulnerable circumstances. We do support a widening of the definition of vulnerability to include those experiencing financial vulnerability.

Question 3. Should a fuel voucher fund remain a permanent feature of the overall Energy Redress Scheme, so that it can react quickly to specific crises?

No – whilst this fund has provided invaluable support for consumers in recent months it should only ever have been enabled as a temporary measure in what were exceptional circumstances. Many households found themselves in incredibly challenging situations with great uncertainty as to where to turn for support. The Energy Redress Scheme itself should only be viewed as temporary. It exists as the result of detriment to consumers and is not intended to be self-perpetuating/self-sustaining. There are systemic issues for the state and energy companies to consider in the support of households in crisis. The benefit when provided to those that need it most is great yet there is benefit to energy suppliers in the clearing of debt or in the payment in advance of consumption of energy. They are the donors to the scheme, as a result of poor customer practices (as determined by Ofgem), yet in 2020/21 have seen £10million of donated funds returned to them by way of fuel vouchers and fuel debt clearance. The benefit to energy suppliers requires to be fully understood and a determination made by Ofgem as to the appropriateness of this for energy redress.

There is a risk that the existence of this route to crisis funding could reduce the actions of responsible energy suppliers to support their customers. There are also other funds from the public and private sector that exist or have been mobilised during COVID-19 to support similar eligible people/households and there is no consistent or transparent approach. It is likely that there has been duplication reducing funds to help those in greatest need.

Question 4. If a fuel voucher fund is set up, what type of consumer should be eligible to apply for these vouchers? e.g. vulnerable consumers, pre-payment meter consumers.

Notwithstanding our concerns about the use of Energy Redress Scheme funds to support crisis payments in general, the current provision carries an inherent unfairness.

The focus during 2020/21 has been on supporting customers with pre-payment meters which is not in itself a good proxy for vulnerability nor fuel poverty. Whilst there is a greater likelihood that households with prepayment meters may be in fuel poverty the largest cohort of fuel poor households are credit customers.

Our understanding from conversations with our member organisations was that the criteria applied was insufficient to ensure that funds reached those in most need. Our experience with this lack of qualifying criteria has been significant demand from households who do not represent those who are most in need and are undoubtedly not who the fund was intended to support. In many cases support was allocated to households on the evidence of the existence of a pre-payment meter and (more recently) self-declarations on economic impact due to COVID-19. The existence of a pre-payment meter is not a sound proxy for fuel poverty and does not in itself serve as the determinant of vulnerability. It is true to those with pre-payment meters are more likely to experience fuel poverty or vulnerability but there are many other factors that determine the decisions of customers to have this meter arrangement.

Funds would be better allocated, deliver greater lasting impact, supporting money & debt advice, energy efficiency advice, and workforce training. Households would benefit with greater impact on debt resolution and the encouragement to access supports to reduce energy consumption or access/undertake home improvements. This approach would also offer a more sustainable solution, with impacts lasting well beyond the period during which vouchers and debt repayments were available.

Question 5. What are your views on expanding the applicant scope beyond charities and organisations that partner with charities? If you think the scope should be expanded, do you have any suggestions for how eligibility should be defined? (e.g. what legal structures/status should qualify? Should there be other qualifying criteria?)

Energy Action Scotland does not believe that organisational eligibility should be expanded beyond the charity sector. Whilst, good governance, clear auditability and accountability is not limited to the charity sector, charities operate to higher legal obligations than other types of constituted bodies. Charities operate with the highest levels of public trust and therefore should be the focus of funds such as the Energy Redress Scheme. We believe that charities offer the clearest option for eligibility without entailing additional administration to validate organisations. This would entail additional costs reducing the funds available for good causes.

We would suggest that projects of the following types be funded:

- Local energy initiatives/projects that can provide cheaper energy to consumers or better access to energy deals.
- Debt and money advice, including income maximisation.
- Advice to consumers on alternative heating options – particularly around renewables (e.g. heat pumps).
- Educating people on reading meters and building understand of their bills so they can make informed choices about switching.
- Advice on off-grid and all-electric homes. How to use storage and electric heating more efficiently.
- Energy saving measures for hard-to-treat homes.
- Incentives for the tenants of landlords in the private sector and private sector landlords themselves to improve energy efficiency of their properties to benefit those at most risk.

Question 6 – How did you find the application process?

Our members have told us that the application process is comparable to other similar funds.

Several have expressed frustration with the process where they have been required to submit their projects on multiple occasions prior to gaining support or final rejection.

Question 7– Did you have a good understanding of the eligibility criteria?

Yes, largely because of the guidance that is offered. However, there is an assumption that charities will be fully aware of the nature of energy industry support when applying. We believe it is incumbent on the fund to provide very clear criteria to ensure that applicants do not require knowledge of the projects supported by other funds. We appreciate that there is a need to offer distinction from industry initiatives funded by ECO but that support is very broad and places a burden on applicants that could be removed with criteria with the utmost clarity.

Question 8 – Do you have any feedback on what would have made the process better?

Please see the answer to question 6.

Question 9 – Should we consider any other areas regarding the Energy Redress Scheme? If so, please provide an outline explanation of your suggested area(s). If possible, please outline any associated benefits and costs with your suggestion(s).

No, we believe that the current scheme design has the scope to covers all elements that it needs to. This is within the context of no change to the eligibility of organisations nor sees a change in the 70:30 split.

Q10 - Other comments

There should be greater transparency in the operation of the Energy Redress Scheme to safeguard funding to benefit the public which was after all generated by poor practice towards the public. There is no information on who the individuals are on the panel that determines awards. Greater visibility underpins confidence in the objective nature of the funding.

Ofgem should commission an independent evaluation of the operation of the Energy Redress Scheme and the outcomes delivered for the investment made. This should be aligned with methodologies such as social return on investment to fairly evaluate the benefits provided to vulnerable and fuel poor households. The current evaluation thus does not appear to be independent, being published and branded by the scheme administrator itself.