

Strategy consultation for the RIIO-ED1 electricity distribution price control

Written response submitted on behalf of the Scottish Government's Fuel Poverty Forum

The Fuel Poverty Forum is an independent group established by Scottish Ministers to give advice on all matters relating to fuel poverty in Scotland. The Forum has a wide and varied membership comprising NGOs from the fields of poverty, energy efficiency and fuel poverty as well as fuel suppliers, the local authority body COSLA, Consumer Focus and the Energy Saving Trust. The Forum meets to consider;

- The effectiveness of current policies aiming to reduce fuel poverty;
- Means of creating greater co-ordination across all interested parties;
- The barriers to reducing fuel poverty;
- Any additional policies needed to achieve the Government's targets, both at Holyrood and Westminster;

The Fuel Poverty Forum (the Forum) therefore welcomes the opportunity to input to this important consultation document. This response is being submitted on behalf of the Forum by the Chair and Vice Chair.

Scottish Fuel Poverty Forum context

The Scottish Government, in common with the UK Government, has a legally binding target to eradicate fuel poverty by 2016¹. The Forum, as the Government's independent advisory body on fuel poverty, wants to ensure that Government policies both at UK level and at the Scottish Parliament are doing all that is reasonably practicable to meet this target.

The Scottish Government estimate that in 2010 there were 658,000 households in Scotland in fuel poverty². However Energy Action Scotland, the Scottish fuel poverty charity, estimates that due to recent rounds of price increases, the number of fuel poor households in Scotland is now 900,000.

The UK Government's Independent Review of Fuel Poverty,³ led by Professor John Hills, found that fuel poverty is a distinct and important issue. As part of the Review's conclusions, Professor Hills established a 'Fuel Poverty Gap' which measures the average and aggregate depth of fuel poverty expressed as the difference between costs faced by the fuel poor and typical costs of achieving a warm home. The Review found that fuel poor households are paying £1.1 billion more for their fuel compared to typical households across England. That fuel poverty gap clearly demonstrates the enormous scale of the problem.

While the Scottish Government are not bound to that review and have stated that they will retain the current fuel poverty definition, but they are clear that the fuel poverty gap as suggested by Hills is a real and worrying state of being and believe that if applied in a Scottish context would show a similar picture here.

¹ Housing Scotland Act 2002

² Scottish House Condition Survey key findings 2010

³ http://www.decc.gov.uk/en/content/cms/funding/Fuel_poverty/Hills_Review/Hills_Review.aspx

The Marmot Review Team report⁴ presented evidence on how cold homes lead to multiple health problems including excess winter deaths, respiratory health problems and mental health problems as well as an increased likelihood of poor educational attainment among children.

High energy prices have been the biggest driver in the increase in fuel poverty and the long term trend is for prices to continue rising. The Scottish Governments' Scottish House Condition Survey states that for every 5% rise in fuel prices a further 46,000 households in Scotland are taken into fuel poverty⁵. Meanwhile, some off-gas grid consumers face even higher energy prices if using oil or LPG. In addition, others may have old and inefficient high cost electric heating systems exacerbated by very limited application tariffs.

The lack of gas network penetration in Scotland is very much a legacy issue as is the varying degree of rural electricity network capacity post-industry privatisation in 1990. Since that time energy prices have also increased dramatically with the differential increasing between oil and LPG compared to mains gas. It is worth of noting that almost one third, 33%, of all Scottish homes have no access to mains gas.

The recession, unemployment, welfare reform, energy industry investment plans (estimated at c. £200 billion to 2020⁶) and uncertainty over new generating capacity as well as energy prices will all exacerbate fuel poverty levels. The Forum is deeply concerned that the costs and implication of the UK's transition to a low carbon economy, has yet to be sufficiently explored. Furthermore, the collecting of costs for a range of environmental and energy initiatives via domestic fuel bills is regressive and creates additional consumer inequity when recovered in this way and not funded via general taxation.

The budget set by the Scottish Government has remained static over the last few years and while it has not seen the drastic reduction in funding for Warm Front in England, it falls well short of the figure that EAS and others have calculated is needed to eradicate fuel poverty in Scotland by 2016.

The Green Deal and ECO offer a new opportunity to assist households in Scotland. The Scottish Government is relying heavily on being able to lever in significant amounts of ECO money in order to establish its proposed new National Retrofit Programme. A number of Forum members believe that the Energy Company Obligation (ECO) must be fully dedicated to the alleviation of fuel poverty and not used to subsidise expensive measures on behalf of 'Able-to-Pay' households whilst so many fuel poor households still require measures to be fully funded upfront. The diversion of this funding to the able to pay market will seriously limit the impact of the drive to tackle fuel poverty in Scotland.

Consultation response

The Forum very much welcomes Ofgem's continued drive to facilitate the public policy debate and consumer engagement in this complex area and particularly so at a time of rising energy costs and the industry's transformation to a low carbon economy. Due to the nature of its diverse membership the Forums response will be limited to issues relating to the fuel poor consumer.

⁴ The Health Impacts of Cold Homes and Fuel Poverty, written by the Marmot Review Team for Friends of the Earth, published in May 2011

⁵ DECC fuel poverty impact assessments 2010

⁶ Ofgem Project Discovery

The plight of the fuel poor behoves all stakeholders to redouble their efforts to help alleviate the problem by exploring the potential creative opportunities this consultation could offer.

The Forum's primary concern is for all fuel poor consumers across Scotland both on and off the gas grid, and whilst all households in fuel poverty should receive assistance, those households on the lowest incomes should be prioritised. For those households off the gas grid, the higher cost of fuel can often be exacerbated by the poor energy efficiency of the property and inefficient heating system, resulting in a much higher propensity to be fuel poor. In 2010, the average heating oil consumer had a modeled spend of £2,102 on their fuel costs per annum, compared to an average fuel spend of £1,287 amongst households on the gas grid⁷. The Forum understands from evidence it has received from EAS member Lochalsh and Skye Housing Association that the average in rural Scotland for homes whose primary heating is heating oil is £2,519, almost double the national average.

Additionally the Scottish House Condition survey shows that 68% of dwellings in urban areas have a 'good' NHER rating compared with 29% of those in rural areas. Urban dwellings are also about eleven times less likely to be rated 'poor' than those in rural areas.

Dwellings off the gas grid are 7 times less likely to have a 'good' NHER rating and about 18 times more likely to have a 'poor' NHER rating than those who are on the gas grid. Rural dwellings are more likely to be off the gas grid, and use oil or solid fuels in their central heating than those in urban areas. Furthermore dwellings in urban areas tend to be more energy efficient than those in rural areas. The mean NHER score for dwellings in rural areas is 5.1 compared to 7.0 for those in urban areas. The median NHER scores are 4.9 and 7.4 respectively

It can therefore be concluded that those households in Scotland off the gas grid with the highest fuel costs also live in the least thermally efficient buildings, resulting in a higher risk of experiencing fuel poverty.

The advent of RIIO-ED1 provides a unique opportunity to explore the role Distribution Network Operators could play in both the social issues and fuel poverty agendas. In this respect, the Forum welcomes Ofgem's recent proposals to look at the socialisation of network reinforcement costs regarding the installation, for example, of low carbon heating such as heat pumps particularly off the gas grid, until smart meters are fully rolled out. The relevance being that when complete it should be possible to determine the demand and influence of particular types of technology on the local distribution network. This should then assist the rationale for who pays for any network reinforcement required etc.

The Chair and Vice Chair of the Forum in discussion with colleagues in FPAG are in agreement that this strategy consultation represents a creative opportunity to identify other existing energy policy landscape incentives/ambitions and the potential for a joined up approach to facilitate maximum leverage and consumer benefit through a DNO. FPAG's assertions that although initially difficult for us to comprehend their examples of energy policy incentives/ambitions that may bring the potential for mutually reinforcing policies into focus that currently do not present themselves in a coherent way is one that the Forum is fully supportive of. FPAG lists these as:

⁷ http://www.decc.gov.uk/en/content/cms/statistics/fuelpov_stats/fuelpov_stats.aspx

- Ofgem - Regulatory incentives for distributed generation to avoid network reinforcement costs
- Ofgem - Load management incentives to avoid network reinforcement costs
- NGrid - System balancing incentives, at the time of excess of renewable energy
- DECC - District Heating being potentially “Green-dealable” in the future
- Ofgem/Ofwat - Bio-methane incentives for GDNs and Water Companies
- DECC - Reducing household carbon emissions
- DECC/EU - Carbon revenues – auction EU ETS and Carbon Floor Price and the EU desire to see 50% recycled back to consumers.
- DECC – Renewable Heat Incentive and CHP

The Forum considers that by exploring some of the aspects of the above ambitions/incentives it is possible to envision potential example scenarios to assist the fuel poor through leverage of the various aspects.

The Forum also believes the three examples put forward by FPAG to demonstrate the concept are well thought through and would equally apply in a Scottish context.

The Forum welcomes Ofgem’s proposals for the gas distribution companies to extend the gas network and connect around 80,000 fuel poor households to the gas network at a cost of around £7 billion, between 2013 and 2021.⁸ However, greater impetus is still required to help fuel poor households access renewable technologies, ensuring a long term sustainable reduction in their energy bills.

The Forum also welcomes the proportion of ECO that will now be spent improving the energy efficiency of low income communities and in particular the 15% that will be spent in rural communities.⁹ The Forum hopes that this percentage spend will be attainable in Scotland and is actively working with the fuel suppliers who are active in Scotland and who sit on the Forum to ensure that this can happen.

The Forum has put forward the concept of a new area based programme to Scottish Minister and for next April a new National Retrofit Programme will be rolled out across Scotland. It is intended that this will be a street by street approach tackling the most fuel poor areas in Scotland over the next ten years. The Forum believes that this is the most effective way of improving the housing stock across Scotland, and we therefore hope that the current proposal is something that can be built on further in the RIIO-ED1 context. It is hoped that the fuel poor in rural areas, particularly those off the gas grid, will be able to benefit from this policy.

Energy Action Scotland’s sister organisation National Energy Action (NEA), both through Warm Front and separately, has been involved in a number of alternative and renewable technology solutions including air-source heat pumps, solar thermal systems, and biomass heating and photovoltaic systems. These projects have highlighted, for example, how air source heat pumps installed correctly, and with the right support to low income households, can provide an effective solution to households without access to the gas network to heat their homes cheaper than other alternative expensive heating fuels such

⁸ http://www.ofgem.gov.uk/Media/PressRel/Documents1/20120716_RIIO_Press_Release.pdf

⁹ <http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/5536-carbon-saving-community-obligation-rural-and-low-.pdf>

as oil and LPG. The Forum would therefore urge consideration be given to some kind of innovation fund within RIIO-ED1 to explore the characteristics and potential of this type of technology in relation to the implications for the longer term on the electricity distribution network and benefit to fuel poor consumers.

Conclusion

The RIIO-ED1 consultation provides a unique opportunity to bring together a number of disparate, but very important, initiatives/policies to form a creative and cohesive platform to assist a range of fuel poor customers through deeply considered and socially profound regulation.

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