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15th February 2018

Response to consultation on Ofgem's draft Forward Work Programme 2018-19

1. The Consumer Futures Unit (CFU), part of Citizens Advice Scotland, uses research and evidence to put consumers at the heart of policy and regulation in the energy, post and water sectors in Scotland. We work with government, regulators and business to put consumers first, designing policy and practice around their needs and aspirations.
2. Thank you for the opportunity to give our views on your draft Forward Work Programme. We believe you have identified a wide and appropriate range of issues in relation to which there is the potential to bring benefits to energy consumers. Our response also benefits from the discussion on your plan held in January's consultation events.
3. We welcome the news that the Glasgow office will be growing in size and we look forward to working more closely with you to ensure that Scottish consumers are both protected and engaged in the energy market.
4. We do not propose any changes to your areas of work. However, we would like to suggest that the ways in which these GB-wide issues are addressed increasingly differ in Scotland.
5. In particular, there are a number of areas which you identify which correlate with our own proposals for 2018-19, and around which we would welcome discussion about the possibility of working together to ensure solutions reflect particular Scottish circumstances.

Patron HRH The Princess Royal

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Enabling a better functioning retail market

6. We welcome Ofgem's work to ensure that consumers are treated with 'Appropriate Conduct' by their energy supplier and feel that this should be an ongoing priority. Through local Citizens Advice Bureaux, the Extra Help Unit and the Consumer Helpline, the Citizens Advice service in Scotland helps clients with over 28,000 energy issues a year¹ and often sees cases where energy company failings have led to severe detriment for Scottish households. The majority of energy cases seen by advisors relate to billing and metering failings, where clients receive inaccurate bills which can lead to overcharging or the accrual of large amounts of debt. This can be extremely distressing for households which are already struggling to manage tight household budgets.
7. Whilst we welcome Ofgem's dedication to be 'vigilant to ensure that service standards do not decline with the introduction of price regulation' we also think that Ofgem must take an active role in ensuring that service standards are not only upheld, but improved when SSE and Npower merge and, potentially, update their IT systems. As has been seen in recent years², service standards have dropped significantly when retail energy companies have updated their IT systems and we must ensure that the 13 million³ consumers who will be affected by this merger are protected.

Facilitating change in the energy market

8. We welcome Ofgem's work on the Targeted Charging Review and along with colleagues in Citizens Advice England and Wales, we look forward to responding to your consultation. With respect to residual charges, we hope to ensure that Scottish consumers with high electricity usage are treated fairly. Electric central heating on a standard tariff has consistently been the most expensive way to heat a home and people with electric heating are more likely to be in fuel poverty⁴. In Scotland 11% of households rely on electricity as their primary heating fuel⁵ and households in remote and rural areas of Scotland have high energy demand due to the wet and cold climate

¹ <https://www.cas.org.uk/publications/energy-advice-detail-2015-16>

² <https://www.ofgem.gov.uk/publications-and-updates/scottishpower-pay-18m-customer-service-failings>

³ Combined customer numbers as of November 2017

⁴ Upcoming CFU research on the characteristics of off-gas households

⁵ <http://www.gov.scot/Resource/0052/00528448.pdf>

and the poor energy efficiency of the building stock. Ofgem must ensure that any changes to the way consumers are charged for network costs do not increase bills for these high-demand consumers who already pay substantially more for their energy.

9. In the coming months we will also publish research on the support needs of Scottish consumers who rely on electric heating and we look forward to sharing the findings and working more closely with you to ensure that these consumers are given the correct support.

Identifying opportunities and managing long-term risk

10. We agree with Ofgem's recognition that the regulation of district heating may become a priority in 2018-19 given the lack of consumer protection in this area. Additionally, we believe that regulation in the district heat market is needed as a matter of urgency to protect consumers who are already facing both operational and financial problems with district heating systems. Regulation could include measures around billing, metering, standards of service, access to redress and pricing. As highlighted in our report *Different Rules for Different Fuels*⁶ the devolved nature of district heat policy and regulation in Scotland must also be borne in mind.
11. Scottish policy decisions around EVs must also be considered when Ofgem develops their approach and frameworks that will accommodate the roll-out. As outlined in their Programme for Government⁷ the Scottish Government has set an earlier target of 2032 to phase out petrol and diesel vehicles. This may result in a quicker pace of EV up-take by consumers in Scotland and may result in Scottish DNOs investing significantly to reinforce the electricity network. We would urge Ofgem and others to consider who should foot the bill for these network reinforcements. Therein lies the question of fairness. If socialised through consumer bills, then consumers who have no access to private transport will be forced to pay for network upgrades for EVs that they can't benefit from directly.

Ensuring network companies deliver for consumers

12. This year the CFU has taken a bigger role in advocating for Scottish consumers with respect to network issues, and we continue to work closely with colleagues in Citizens Advice England and Wales in this matter. We believe that the transition towards a

⁶ https://www.cas.org.uk/system/files/publications/different_rules_for_different_fuels_-_cfu_insight_report.pdf

⁷ <http://www.gov.scot/Publications/2017/09/8468/8>

smarter, more flexible and greener energy system is arguably happening faster in Scotland and therefore the way in which network companies operate differs increasingly compared with England and Wales. We are soon to publish research which assesses how DNOs currently support consumers in Scotland and hope that learnings from this work can help Ofgem build suitable output frameworks for RIIO 2. We would be pleased to share the findings of this research with you and other stakeholders.

13. Infrastructure upgrades are especially important in Scotland given that network companies must plan to meet the twin challenges of population shift and changing weather patterns. By 2050 it is predicted that there will be more intense periods of winter rainfall in the west and east of Scotland.⁸ There is also expected to be a significant population shift within Scotland, which can broadly be characterised as being from west to east.⁹ This will necessitate infrastructure changes and investment by the energy network companies, and as such will impact on consumers.
14. As stated in your consultation document, the RIIO programme is designed to ensure network operators deliver outputs that customers need and value. We are concerned that the consumer voice is not heard strongly enough under the RIIO programme. In 2018 we plan to conduct deliberative consumer research to understand what Scottish consumers prioritise in relation to infrastructure investment and development of the energy networks. We are keen to work with Ofgem to understand how this consumer voice can be heard and integrated within the RIIO2 framework.
15. Whilst we understand that the timescales are extremely tight for RIIO T2 and GD2, we believe there may be more options available for ED2 than the current engagement methods proposed by Ofgem. Moreover we have concerns with the level of scrutiny that Consumer Challenge Groups (CCGs), if focused around stakeholder engagement, will be able to place on network companies' developing business plans.
16. After attending your workshop on stakeholder engagement under RIIO 2 we are keen to discuss how different stakeholder engagement methods can be used to ensure that network company business plans are aligned with consumer needs and values. We have experience in this area having played a pivotal role in the establishment of the Customer Forum in the Scottish water industry, the lessons from which could be relevant in developing the business plans of energy networks. We would be happy to share insights.

⁸ [Committee on Climate Change \(2017\) UK Climate Change Risk Assessment Synthesis report 2017: priorities for the next five years](#)

⁹ [National Records of Scotland \(2014\) Population Projections for Scottish areas \(2012-based\)](#)

It may also be of interest that our colleagues in Citizens Advice (England and Wales) are undertaking relevant research to understand the effectiveness and suitability of different consumer engagement models to the energy networks industry.

17. To give an example of potential models, the Customer Forum in the water industry in Scotland has a central role in the Strategic Review of Charges (the equivalent of RIIO), charged with representing consumers' needs and priorities in the development of Scottish Water's Business Plan. Established in partnership by the Water Industry Commission for Scotland, Scottish Water and ourselves as the consumer advocacy body, the Customer Forum is in practice an expert challenge group. Its role is significant and active, requiring the forum members to work closely with Scottish Water, and other stakeholders such as ourselves, over a two- to three-year period. In essence, it is about balancing charges to consumers with the costs of infrastructure management, innovation, investment and maintenance.¹⁰

18. We plan to write to you in the coming days to outline our thinking in more detail and would welcome the opportunity to discuss the lessons from the Scottish Water Customer Forum model.

Yours sincerely,

Sam Ghibaldan
Head of the Consumer Futures Unit

¹⁰ <https://www.eprg.group.cam.ac.uk/the-customer-forum-customer-engagement-in-the-scottish-water-sector/>