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CAS Response to Ofgem 2019-20 Workplan

Citizens Advice Scotland (CAS) 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.

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 event in Glasgow.

In this response we highlight a number of areas which we think are priorities for Ofgem.

- 1) Network preparedness and performance – putting the consumer first**
- 2) District heating - the need for regulation**
- 3) Electric Heating – the need for more support**
- 4) Off-gas fuels – the need to protect households**
- 5) Vulnerable consumers – the need for simpler registration**
- 6) Principle-based regulation**

1) Network preparedness and performance –putting the consumer first

CAS welcomes Ofgem’s approach to drive consumer value in energy networks. We also believe that networks should continue to play a role in protecting vulnerable consumers whilst delivering safe and reliable energy in an ever decarbonised system.

In 2018 CAS published a report, [Pylons, Pipes and People](#), which looked at the role of energy network companies in Scotland. Our report found that Scottish electricity network companies are lagging behind others in the stakeholder engagement and customer vulnerability incentive. This leads to a postcode lottery for households as they have no choice as to who their network operator is. We recently authored an essay which was published as part of a [collection](#) by Citizens Advice which explores how support for vulnerable customers can be further incentivised in RIIO 2 and to reduce the effects of a postcode lottery. We would be happy to discuss this further with Ofgem.

Our [Pylons, Pipes and People](#) report also highlighted the risks that the change to a smarter, more flexible and lower carbon energy system poses to certain groups – especially those who are financially vulnerable. We strongly believe in the principle that ‘no one gets left behind’ and think Ofgem should be actively working to make sure that this principle becomes a reality and not an aspiration.

While CAS welcomes Ofgem’s work on the Targeted Charging Review (TCR) we have some concern with elements of the proposed changes – in particular the effect of fixed residual charges on low income energy users. Below is a summary of the key points we raised in [response](#) to Ofgem’s recent consultation.

Summary of key points:

- 1) CAS welcomes Ofgem’s work on the TCR and recognises the need for change
- 2) CAS welcomes the broad re-balancing of charges between the domestic and non-domestic sector
- 3) We raise a number of significant concerns with the fixed charge method that is being proposed and in particular the effect it may have on low income households – which has

potential to exacerbate fuel poverty in Scotland.

- 4) Further analysis and consumer research is needed to understand distributional impacts within the domestic sector in Scotland
- 5) CAS believes that households in the North of Scotland who face the largest impact from the proposed changes need appropriate protection
- 6) CAS does not think that Economy 7 users should face higher residual charges than other domestic users
- 7) The impact from the review of 'access and forward looking charges' needs to be better understood before decisions on 'residuals' are made.

2) District heating - the need for regulation

CAS has been working closely with the CMA in their investigation into the need for regulation in heat networks. The CAS report, [*Different Rules for Different Fuels*](#), explored what consumer protections are in place for district heating in Scotland and how these compare with different European countries. The report also presented a legal opinion of John Campbell QC to better understand the options open to the Scottish Government to strengthen consumer protection for district heating customers in Scotland.

In line with our general recommendation, the CMA found that heat networks should be regulated, but by Ofgem, not a new Scottish body (as per CAS recommendation). We welcome continued engagement with Ofgem on this topic and see this as a priority area - given the evidence of detriment we are seeing through the Citizens Advice network in Scotland.

3) Electric Heating – the need for more support

CAS also has a particular concern for fuel poor households who live off the gas grid and believe that supporting these customers should be a priority for Ofgem. There are more than 500,000 non-gas homes in Scotland¹, and 22% of people rely on non-gas fuels to heat their home, in both rural and urban areas. People who are reliant on non-gas heating often have to pay significantly more to heat their homes. Electric heating can cost three times as much as gas, and 52% of electric heating users in Scotland– 140,000 people - are in fuel poverty.

Our report [*Hard Wired Problems*](#) found that those who rely on electric heating often experience significantly higher heating costs, lower incomes and widespread disengagement from both the

¹ <https://www.cas.org.uk/publications/gas-consumers-updated-information-households-without-mains-gas-heating>

energy market and support services. As a result, this group often requires additional, holistic support to lower costs and resolve problems. However, many are not accessing the support that they need.

The report finds that there is a need for additional support to develop specialised, holistic advice services dealing with electric heating, the expansion of locally-delivered, face-to-face advice services, efforts to improve awareness of existing support services, more specialised training for advisers, longer-term funding for advice services, and targeted support for upgrades to electric heating systems. We think that Ofgem has a role in ensuring that this support is available.

We also think that Ofgem should investigate whether the CMA single rate tariff remedy for households with restricted meters is working effectively – as evidence from the Citizens Advice network in Scotland shows that it may not be delivering positive outcomes as hoped.

We also have concerns about the access that restricted meter customers have to smart meters. We would like Ofgem to make sure that those with restricted meters are not further disadvantaged through a lack of access to smart meters.

4) Off-gas fuels – the need to protect households

Heating oil price volatility is a particular concern for CAS. 25% of properties in the Highlands and Islands rely on oil heating and 50% of homes are in Fuel Poverty. CAS recently published [*Clubbing Together*](#) which looked at the potential for heating oil buying clubs in the Highlands. The report found that oil prices were highly volatile – in one location prices increased by 30% from November 2017 to January 2018.

Prices in the Highlands were found to be higher (£10-£70 per 1000L) than the rest of Scotland and a particular lack of competition was noted in the Skye and Lochalsh area where households had to rely on one supplier.

As an unregulated market with a lack of competition, this is an area where we think Ofgem could be working in collaboration with others (such as the CMA) to ensure that off-gas customers are not further disadvantaged.

5) Vulnerable consumers – the need for simpler registration

Currently many different companies hold different registers for vulnerable consumers and this can be confusing for people. We will soon publish a report on how the registration process for vulnerability registers can be simplified across different sectors (energy supplier, energy network, water sector, health etc.) and whether a single register should be held to simplify the landscape for consumers. We will continue to engage with Ofgem as our report is published and beyond.

6) Principle-based regulation

With the move to principles-based regulation and removal of the requirement on suppliers to issue annual fuel bills to consumers, we think that Ofgem should monitor how energy suppliers are reacting to, and changing the wording on customer bills. It is important that Ofgem monitors this closely to ensure that customer bills are sufficiently transparent and clearly worded across all suppliers to avoid confusion. It will also be important over time that Ofgem helps to facilitate the sharing of best practice in customer communications between suppliers - in particular where customer debt is concerned. We are aware that being in debt can lead to consumers becoming further disengaged and at worst self-disconnecting. It is important that well-worded customer letters or leaflets reference sources of support on debt advice to help destigmatise debt and encourage action. In Scotland consumers can contact the Citizens Advice Consumer Advice helpline and sources of free advice on energy efficiency measures such as Home Energy Scotland. We would be happy to engage with Ofgem in this area in regard to Scottish consumers.

If you have any queries about anything noted in this response then please do not hesitate to get in touch.

We look forward to building our working relationship with Ofgem this coming year and hope that by continuing to work together we can help to improve outcomes for people in Scotland.

Yours Sincerely

Jamie Stewart

