

Consumer Futures Unit Consultation Response- RSE Energy Enquiry

Introduction

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. In this consultation we have responded to questions where evidence exists to support our findings and have focussed on questions that relate directly to consumer and societal impacts. Questions in red text have not been answered. More detailed answers to many of the points made here can be found in our responses to the Scottish Government consultations on the draft Energy Strategy¹, Scotland's Energy Efficiency Programme and Local Heat and Energy Efficiency Strategies².

1) What are the most significant challenges to, and influences on, the energy landscape that any future energy strategy needs to take into account?

Affordable decarbonisation

1. The Consumer Futures Unit at Citizens Advice Scotland supports ambitious climate change targets. With evidence from the Stern Review³ we understand that the negative economic and social impact of climate change on future generations will be greater if action is not taken now. However, the near term impacts on consumers must be carefully managed to ensure that decarbonisation policies consider consumer needs and acceptability in a way that will build trust and lead to positive outcomes.
2. As highlighted in the recent Scottish Government Climate Change Bill consultation⁴, we welcome the recognition that:

"decarbonisation policies have the potential to lead to unintended adverse impacts, including on inequalities, through factors such as energy costs."

3. With over a third of Scottish households currently in fuel poverty⁵ future energy policies must simultaneously reduce fuel poverty and emissions. While Government programmes such as SEEP⁶ aim, and have the potential to achieve this, it will require sufficient funding, management and messaging in order to persuade the public of their benefits.

¹ <http://www.cas.org.uk/publications/consumer-futures-unit-response-scottish-government-draft-energy-strategy>

² <http://www.cas.org.uk/publications/local-heat-and-energy-efficiency-strategies-and-regulation-district-heating>

³ http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/4/3/Executive_Summary.pdf

⁴ <http://www.gov.scot/Resource/0052/00521930.pdf>

⁵ Scottish House Condition Survey 2015 <http://www.gov.scot/Resource/0051/00511081.pdf>

⁶ SEEP- Scotland's Energy Efficiency Programme

4. Beyond SEEP many energy policies will not only have a financial impact on consumers, but will require consumers to be engaged and willing to change their behaviours. As is detailed in our response⁷ to the Scottish Government's consultation on the climate change bill⁸, the use of behaviour change tools such as the ISM model must be widely used to ensure that policies can be successfully and fairly implemented⁹.
5. Increased use of low-carbon heating technologies may have the potential to provide affordable energy and help to reduce fuel poverty in some circumstances. For example, district heat networks can often reduce costs when replacing electric heating. However, some technologies may lead to higher costs than alternatives like mains gas, or the potential for reducing costs may be lost through a lack of efficiency or poor installation of systems. Therefore, the rapid deployment of these new technologies should be accompanied by robust consumer protections and measures to ensure that consumers are not required to use heating systems that are unaffordable or would increase costs for those on low incomes¹⁰.

6) What action needs to be taken to ensure that Scotland fulfils its climate change obligations while also meeting demand; and what are the main obstacles to achieving this?

The importance of consumer impact and consumer acceptability

6. To date much of the progress on reducing Scotland's GHG emissions has been from changes in the power generation sector. While some of this has been from increased renewable generation, much of the reduction is a result of the closure of Scotland's coal-fired power stations. This brings into sharp focus the enormity of the challenge, particularly if transformational changes in consumer lifestyles are to be realised.
7. The Scottish Government's Climate Change Plan¹¹ acknowledges that cutting greenhouse gas emissions will require significant changes to consumer behaviour stating:

'...in implementing this Plan, we will touch on the lives of everyone in Scotland: on the way we travel and move our goods around; the way we heat our homes and buildings; the way we manage our land and produce food; the jobs and training opportunities to which we will have access; the new energy infrastructure we will need; and the way this all builds Scotland's economic capacity and competitiveness.'

8. However as highlighted by recent CFU research¹², consumer awareness and willingness to change both lifestyles and spending habits might not be aligned with ambitious proposals set out by the Scottish Government. While 73% of respondents to our survey thought that individuals were responsible alongside governments and business to tackle climate change, only 5% thought that money should be raised through general taxation on individuals. Similar findings about consumer acceptability of energy efficiency regulation and financial incentives in the housing sector were also explored in recent CFU research.
9. In 2015, we published *Coming in from the cold: minimum standards of energy efficiency in private sector housing – the view from consumers and bureaux*¹³. Overall, this research suggested it would be a challenge to convince homeowners in general that regulation would be a good thing, and more preference was given instead to empowering and supporting homeowners to make energy-efficient

⁷ CFU Response to Scottish Government Climate Change Bill Consultation – to be published

⁸ <http://www.gov.scot/Resource/0052/00521930.pdf>

⁹ ISM- Individual, social and material - the three contexts that influence peoples behaviours
<http://www.gov.scot/Publications/2013/06/8511/2>

¹⁰ <http://www.cas.org.uk/publications/different-rules-different-fuels-exploring-consumer-protection-district-heating-market>

¹¹ <http://www.gov.scot/Resource/0051/00513102.pdf>

¹² Not published at the time of this consultation response

¹³ Coming in from the cold- Consumer Futures Unit 2016 <http://www.cas.org.uk/publications/coming-cold>

choices through the provision of advice, information and incentives. Arguably this was, even then, already current practice in Scotland. The study was not able to explore in greater depth how this would achieve the required step change in uptake of some of the more difficult home efficiency measures.

10. In January 2017, the CFU therefore commissioned a substantial and innovative new project¹⁴, using for the first time deliberative research techniques, to help inform our response to this part of the SEEP consultation.
11. The new research clearly demonstrates the continuing, substantial political challenge to be overcome before consumers – homeowners in particular – can be persuaded to accept regulation of their home to minimum standards of energy efficiency. As the report states¹⁵, people appear by and large to be 'not there yet' in lining up with the positions agreed by their governments on climate change and future energy usage, and on the targets, investment costs and behaviour change which those imply. There may be a risk of public opinion on this subject diverging even more if there is a perception that the residential sector are shouldering a disproportionate burden compared with other sectors.
12. The research suggests that any new regulation would need to be preceded, or at least accompanied by, substantial efforts to lead and transform public opinion – through a well-financed education, communications and marketing and awareness-raising programme.
13. A similar education, marketing and communication approach may be needed to get consumers aligned with government policy on domestic heating. As mentioned in our response to question 7a, the Scottish Government Draft Energy Strategy¹⁶ proposes ambitious targets for decarbonising domestic heating. Although the technologies needed to deliver this transition may require varying levels of consumer engagement and behaviour change, consumer acceptance of new heating systems will likely be an essential component of a successful transition.
14. However, our survey¹⁷ shows that public perceptions of what actions are needed on an individual level to reduce climate change focus around reducing waste, recycling and buying locally grown food (Figure 1). This may be due to the success of policies such as kerbside recycling, which for many citizens is something that they can relate to personally, is socially accepted /expected and, importantly, doesn't have associated costs to individuals.

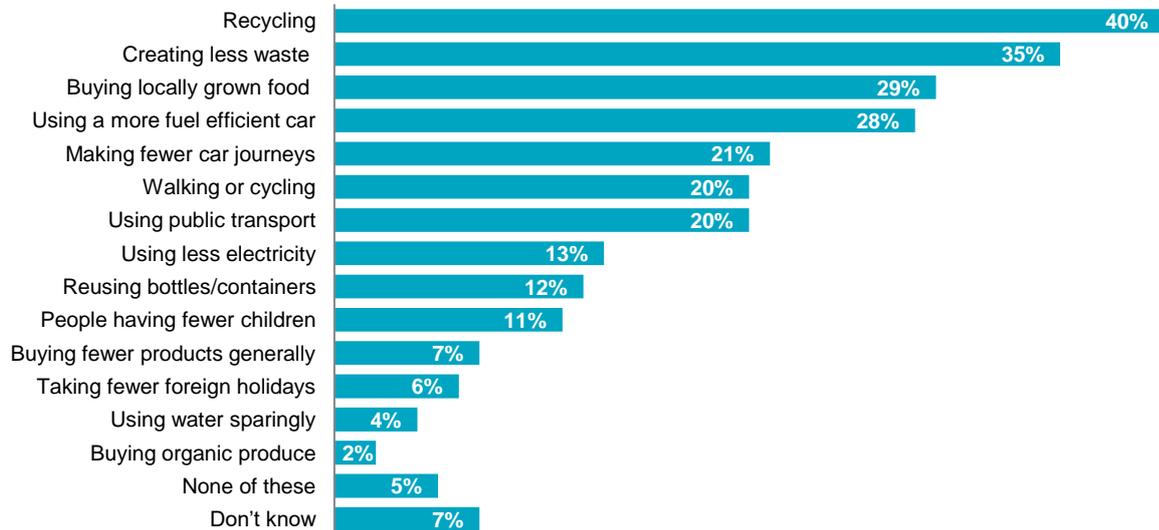
Figure 1 – Question: Which of the following actions do you think would do the most to help reduce climate change on an individual level?¹⁸

¹⁵ To be published autumn 2017.

¹⁶ <http://www.gov.scot/Publications/2017/01/3414>

¹⁷ To be published Autumn 2017

¹⁸ Respondents were asked to pick up to three options.



15. The fact that citizens do not perceive reducing energy use in the home as one of the key ways they can individually help to reduce climate change may also be a result of their perceptions of what is causing climate change. Our survey results show that citizens think that the use of gas and electricity in the home is only marginally more responsible for climate change than smoking.
16. If the domestic uptake of renewable heating technologies is to be successful, the survey results indicate that significant consumer engagement will be needed to inform consumers about the need to decarbonise the way they heat their homes and to encourage low carbon technologies that will be popular and affordable.
17. We also believe that the design of decarbonisation policies must make further use of behavioural science, something that was also recommended by the Environment, Climate Change and Land Reform Committee in their report¹⁹ on the Draft Climate Change Plan. Like the committee, we encourage the Scottish Government to utilise their ISM²⁰ tool more widely to ensure that behavioural insights and consumer principles are embedded in new carbon reduction policies. This will ensure that decarbonisation targets can be met.

10) What actions can be taken, and by whom, to ensure that energy is accessible to all at an affordable cost for those on low incomes; and that any changes in energy provisions and associated tariffs are understandable and acceptable?

Equality, fairness and consumer protection

18. Issues of equality and fairness must be fundamentally considered across all new government policies. With 31% of Scottish households in fuel poverty²¹, these considerations are particularly important for energy policies that will affect all consumers in Scotland, especially those in fuel poverty. It is essential that appropriate consumer protections are put in place for any future energy market developments.
19. An example of where considerations of income and rurality are particularly important is in domestic heating policy. The Scottish Government’s draft Climate Change Plan²² sets ambitious targets for 80% of all Scottish households to have a low carbon heat supply by 2032. In their report on Scottish emission

¹⁹ http://www.parliament.scot/S5_Environment/Reports/ECCLRS052017R03.pdf
²⁰ ISM- Individual, social and material- the three contexts that influence peoples behaviours
<http://www.gov.scot/Publications/2013/06/8511/2>
²¹ Scottish House Condition Survey 2015 <http://www.gov.scot/Resource/0051/00511081.pdf>
²² <http://www.gov.scot/Resource/0051/00513102.pdf>

targets²³ the Committee on Climate Change (CCC) envisage that to support carbon targets, heat pumps are rolled out to 18% of homes by 2030 with costs of up to £20,000 per household²⁴. Households should not be expected to pay any unaffordably high upfront capital costs associated with the installation of new heating systems.

20. We continue to recommend that support for low carbon heating is concentrated towards low income households, particularly those using electric heating, as long as it is accompanied with appropriate consumer protection and quality assurance. At present, around 284,000 (12%) households in Scotland depend on electric heating to heat their homes. Electric heating is often used by those on low incomes and in rural off-gas areas, and given the high cost of heating a home with electricity, fuel poverty rates are high among this group – currently at around 54% in Scotland²⁵.
21. Without these considerations, policies designed to support ambitious carbon reduction targets risk increasing levels of fuel poverty or increased debt, inequality and consumer detriment to the people of Scotland.

Consumer Engagement in the Energy Market

22. Increasing engagement in the energy market can play a key role in reducing energy costs. At present in the UK, around 70% of consumers with the six largest energy suppliers are on the most expensive Standard Variable Tariff²⁶. Trust in the energy market and suppliers remains very low among consumers²⁷, which represents a major barrier to engagement in the market. A new energy strategy should consider greater support for services that support consumers to engage in the market to reduce their energy costs, particularly through switching tariff or supplier, as well as understanding their energy needs. Any energy retail intermediaries acting on behalf of consumers will need to be carefully monitored to ensure they operate to consumers benefit.
23. In order to achieve this, consideration should be given to continuing and expanding the support and advice that is available to help consumers identify appropriate tariffs and guide them through the switching process. This support may also include wider advice on energy use and how to use heating systems, as well as home visits. There are existing good examples of holistic support services in Scotland, such as Citrus Energy²⁸, and a new strategy may consider how such services could be expanded and supported further. These intermediaries will have an increasing role as digitisation of the market continues.
24. Support on energy complaints and other issues delivered by telephone is also seen an invaluable service in helping consumers to understand and resolve issues with their energy supply. Such services are provided by the Extra Help Unit²⁹ and have very high satisfaction rates among consumers, with a high proportion of issues being resolved quickly³⁰. Additionally, the CFU report *Facing Fuel Poverty* has indicated that holistic face-to-face fuel poverty advice in the home is a necessary service for certain householders, particularly those who are vulnerable³¹. In a new energy strategy, consideration should

²³<https://www.theccc.org.uk/wp-content/uploads/2016/03/Scottish-Emissions-Targets-2028-2032.pdf>

²⁴ <http://www.energysavingtrust.org.uk/renewable-energy/heat>

²⁵ Scottish Housing Survey 2015

²⁶ Competition and Markets Authority, Energy Market Investigation, 2016

²⁷ Ofgem, Retail Energy Markets in 2016

²⁸ <https://citrusenergy.businesscatalyst.com/>

²⁹ The Extra Help Unit is a specialist team of caseworkers investigating energy and post complaints on behalf of vulnerable consumers. The service is delivered by CAS and covers the whole of Great Britain helping domestic and micro-business consumers.

³⁰ http://www.cas.org.uk/system/files/publications/2017-06-22_facing_fuel_poverty_cfu_insight_report.pdf

³¹ Ibid

be given to continue to invest, and look to invest further, in telephone-based and face-to-face fuel poverty advice services as a necessary service to support certain vulnerable households.

New Technologies and Data Handling

Smart meters and improved technology will result in greater personal data being held by suppliers and other market actors. It will be important that market actors handle data extremely carefully and are transparent and open about how it is used. This data must not be used to the detriment of consumers, particularly those who are vulnerable. Additional safeguards should be considered such as a single consent process and regulatory measures for emerging market actors, such as retail market third party intermediaries.

Supplier-led Fuel Poverty and Energy Efficiency Schemes

Opportunities may arise for the better design of fuel poverty and energy efficiency schemes that are currently supplier-led, as powers over Warm Home Discount and the Energy Company Obligation are devolved to the Scottish Government. As part of this, effective consumer protections and ease of access to scheme benefits will be key.

11) What are the particular advantages enjoyed, and challenges faced, regarding energy; and what lessons can be learned on a national scale from community energy schemes undertaken by: a) Rural and remote communities b) Urban Communities

25. Evidence of operational and planned community energy projects from November 2014 showed that this type of generation was distributed unevenly across Scottish local authority areas. Factors such as topography and population will influence the overall potential for community renewables in different areas in Scotland. However it is important that the opportunities to benefit from these resources are not limited by the support available within a regional location. Currently distribution of community energy generation varies significantly, from no or very little activity in some areas to over 30MW in others³². To avoid a 'postcode lottery', any barriers to participation in specific local authority areas need to be identified and addressed at an early stage.

12) To ensure that energy is successfully sourced for, and delivered to, the people living in Scotland, how can different levels of government best cooperate: a) With one another; b) Internationally; c) With existing energy generators, network operators and retailers?

26. In their report³³ on Scottish emission targets, the CCC also envisioned a significant (2.6 TWh) roll out of heat networks, and the Scottish Government has maintained its target of delivering 1.5 TWh of heat demand from district heating. This has widely been proposed as a means of delivering low carbon energy and reducing fuel poverty. However, this technology, as with some other alternatives to gas and electricity, is not currently regulated, and there are no consistent or statutory consumer protections in place. The CFU's 2016 report *Different Rules for Different Fuels* highlights the potential detriment that consumers could face without adequate consumer protections or technical standards, particularly as district heating schemes generally operate as supply monopolies³⁴. Therefore, where measures are taken to expand these technologies as part of a new energy strategy, a regulatory system which includes statutory consumer protections and technical standards should be put in place to prevent consumer

³² Involving Stakeholders: Partnerships and Joint Ventures, Vijay Bhopal, Scene Consulting, 25/9/14

³³ <https://www.theccc.org.uk/wp-content/uploads/2016/03/Scottish-Emissions-Targets-2028-2032.pdf>

³⁴ <http://www.cas.org.uk/publications/different-rules-different-fuels-exploring-consumer-protection-district-heating-market>

detriment and ensure consistency in the sector. The CFU research indicated that the majority of district heating suppliers are not opposed to some level of regulation being introduced³⁵.

13) How can we best encourage objective, evidence-informed debate around energy while also acknowledging the differing perspectives and priorities held by businesses, civil society and government?

The need for detailed policies

27. As stated in the Climate Change Bill consultation document³⁶, the nature and magnitude of impacts of new energy policy on people will be dependent on what measures are proposed in strategic delivery plans. While strategic delivery plans should offer the opportunity to undertake thorough impact assessments, they must contain sufficient detail. As we noted in our response³⁷ to the Economy, Jobs and Fair Work Committee, who scrutinised proposals in the draft Climate Change Plan³⁸, there was insufficient detail in this draft plan to understand how ambitious proposals would be implemented and therefore what the impact on consumers would be. So, while we welcome the proposals by the Scottish Government to include socio-economic impact assessments moving forward, detailed energy policies must exist for impact assessments to produce meaningful results.

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³⁵ Ibid

³⁶ <http://www.gov.scot/Resource/0052/00521930.pdf>

³⁷ http://www.cas.org.uk/system/files/publications/ejfwc_committee_0.pdf

³⁸ <http://www.cas.org.uk/publications/draft-climate-change-plan-evidence-environment-climate-change-and-land-reform-committee>