Written evidence submitted by Citizens Advice Scotland (ENB0013)

About Citizens Advice Scotland

Citizens Advice Scotland (CAS), our 59-member Citizen Advice Bureaux (CAB) and the Extra Help Unit, form Scotland's largest independent advice network. Scotland's Citizens Advice Network is an essential community service that empowers people through our local bureaux and national services by providing free, confidential and independent advice. We use people's real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help and we change lives for the better.

The Citizens Advice network in Scotland provides significant levels of advice and support to people across Scotland. From April to December 2023, our network provided 65,452 pieces of advice regarding gas and electricity, which constitutes 95% of the total advice on utilities more generally. Demand for advice on fuel debt has risen in recent years. The amount of fuel debt advice provided by the Citizens Advice network in Scotland increased by 53% between 2021/22 and 2023/24. This change represents a clear increase on pre-pandemic levels. The average fuel debt present by clients to the Citizens Advice network in Scotland is £2307. Given these trends, Citizens Advice Scotland is deeply concerned about the burden that increase energy bills have imposed on people.

What are the justifications for allowing or removing standing charges from energy bills?

The current justifications for standing charges are that all consumers should bear the cost of maintaining the electricity and gas networks, and the portion consumers pay should reflect the cost to serve them with energy. This 'cost reflective' approach creates regional variations in standing charges (discussed in more detail in a subsequent answer). Additionally, consumers pay a fixed cost regardless of their energy usage. For example, low-income households using limited amounts of energy pay the same standing charge rates as households that use comparatively more energy. These issues provide two justifications for removing standing charges.

Citizens Alert: An East of Scotland CAB reports of a disabled man in receipt of Universal Credit who accrued a £500 debt to his energy supplier. To reduce his bills, he stopped using gas. He was confused as to why he continued to receive charges on his gas account because he did not appreciate that the standing charge applies regardless of energy consumption. Despite his best efforts, his energy debt had grown, and he was using foodbanks due to his limited income.

Standing charges represent a complex problem with no straightforward remedy. Low-income, low-usage households would benefit from reduced standing charges because their consumption is modest. Conversely, people experiencing fuel poverty with inescapably high energy consumption – for example, if they use medical equipment or mobility aids – may experience financial detriment if standing charges shifted to unit rates. Ofgem analysis bears out the risk of unintended consequences associated with this policy change. According to Ofgem's calculations, moving standing charges to unit rates would benefit 5.5 million low-income households. However, 1.2 million other low-income households would lose out.[1]

One way of alleviating the financial pressures that standing charges exert on consumers would be to offer tariffs with no standing charges, targeted specifically at consumers who would benefit from them. This option would allow consumers who stand to gain from reduced standing charges to access a tariff that helps them financially. Simultaneously, it avoids disadvantaging consumers who would lose out through a blanket shifting of costs from standing charges to unit rates. Currently, no supplier offers tariffs with no standing charges. Ofgem has powers within its remit to force suppliers to introduce this kind of tariff. Citizens Advice Scotland would support Ofgem compelling suppliers to do so.

Are pre-payment tariffs necessary to deter fraud and theft and, if so, are the rules in forcibly switching people to pre-payment properly policed?

For some consumers, prepayment tariffs are a useful budgeting tool, allowing them to pay for their energy as and when they need it. However, Citizens Advice Scotland opposes forced switching to prepayment meters and supports a permanent ban on this practice. We are concerned about Ofgem's recent decision to allow suppliers to resume forced PPM installation. While Ofgem has introduced a Code of Practice for involuntary installation, Citizens Advice Scotland believes the criteria in the code fail to protect potentially vulnerable people having PPMs installed against their wishes and best interests. For example, the code prevents suppliers from installing PPMs in households with children under two years old but households with slightly older children fall outside this protection. It is unclear if there is a material difference in the detriment suffered by a two-year-old and a three-year-old if their caregivers self-disconnect after a forced PPM installation. Similarly, the code only protects households where all occupants are over 75 years old. This decision places households with a pensioner who is not yet 75 years old outside the code's protections even if there are pensioners who are 75 and over at the property. At very least, the criteria in the code should be tightened and, going further, Ofgem should ban the practice of involuntary PPM installations entirely.

A potential outcome of forced PPM installation is that low-income consumers will respond by not topping up their meters, therefore losing their energy supply (a practice known as self-disconnection). The Citizens Advice network in Scotland has compiled data showing the extent of self-disconnection over recent years. In 2023, our Extra Help Unit, which assists consumers who may be vulnerable or at risk of disconnection, managed around 26,000 self-disconnection cases across Great Britain, and approximately 1,750 in Scotland. Self-disconnection cases have risen significantly since 2021, when the Extra Help Unit received 2,870 cases across Great Britain and only 186 cases in Scotland. Self-disconnection has

[1] Ofgem, *Standing Charges: Call for Input* (2023), p.42.

severe repercussions. In practical terms, it means people go without heating, hot water and the ability to cook hot meals, significantly impacting physical and mental wellbeing.

Effectively, PPMs have become debt management tools suppliers use to recoup unpaid energy bills. This practice points to a fundamental problem in the energy market: energy costs are high, and incomes are low, leaving too many people unable to pay their bills. There is around £2.6 billion of debt in the GB energy market.[2] Bearing out this problem, the average energy debt presented by people seeking help from the Citizens Advice network in Scotland is £2300. Forcibly switching consumers to PPM tariffs will not resolve this problem and, for some people, may exacerbate it.

Is it right to expect those in more remote areas of the country to pay higher amounts in standing charges?

Citizens Advice Scotland is concerned that customers in Scotland pay higher than average standing charges. Ofgem figures show that standing charges in the Scottish Hydro network area increased 113.7% between 2021 and 2023. In October 2023, the average standing charge in this area was £212.83, which is 10.6% higher than the GB average. Standing charges in the Scottish Power Networks area increased by 137% between 2021 and 2023. The average standing charge in the Scottish Power network area in October 2023 was £221.63 – 15.2% higher than the GB average.[3]

These prices reflect the increased cost to serve the rural locales within these network areas. However, higher than average standing charges compound the problem of fuel poverty in Scotland's rural communities. The fuel poverty rate is 29% across all Scotland's rural areas, compared to 24% in urban areas. The extreme fuel poverty rate in rural areas is 19%; it is 11% in urban areas. This problem is even more acute in remote rural areas, where the fuel poverty rate is 43%.[4] While acknowledging these prices reflect the increased cost to serve parts of Scottish network areas, regional variations impose a premium on rural communities. Citizens Advice Scotland calls on Ofgem to consider whether the 'cost reflective' model for standing charges needs to change given the financial detriment associated with regional variations.

How should a social tariff be implemented to address inequalities in billing?

Citizens Advice Scotland calls urgently for the implementation of a social tariff targeted at low-income households as a long-term solution to the problem of energy affordability.

Citizens Alert: A South of Scotland CAB reports of an unemployed man in his sixties with electric storage heaters, whose electricity Direct Debit increased from £78 per month to

[2] Ofgem explores options amid rising consumer debt | Ofgem
[3] Ofgem, *Standing Charges: Call for Input* (2023), p.28.
[4] Scottish Government, *Scottish House Condition Survey: 2019 Key Findings* (2020), p.63.

£264 per month. This increase means that he cannot afford to pay for other essentials and had to seek advice about a food bank referral.

For a social tariff to work properly, it must be widely available and have a low barrier to accessing it. On this basis, income-based targeted support is Citizens Advice Scotland's preferred option. This model would consider household income and energy usage to determine the level of support given. This approach undergirds the social tariff available in Ontario.[5] The value of the social tariff should taper off as income increases, and there should be a threshold beyond which households would not receive support.

An income-based approach is preferable to targeting support based on certain social security or other qualifying payments because it would provide financial assistance to people who do not receive social security payments. For example, an income-based social tariff would help people who do not claim the social security payments to which they are entitled. Similarly, single/non-pensioner households would be eligible for an income-based social tariff. During Q1-3 of 2023/24, single/non-pensioners accounted for 33% of the advice on utilities in general, and 36% of advice on fuel debt, provided by the Citizens Advice network in Scotland. This data indicates that single/non-pensioner households require significant levels of assistance with energy affordability problems.

A further reason to base a social tariff around income rather than social security payments is that the increasing unaffordability of energy has widened the pool of people struggling to pay their bills. Households that met their financial obligations previously are struggling to do so now. They require additional financial support toward their energy costs.

Citizens Alert: An East of Scotland CAB reports of a working-age man in full-time employment struggling to pay his gas bill of £51 per month and electricity bill of £49 per month. He has no recourse to social security payments and is ineligible for the Warm Home Discount because he is in full-time employment.

Citizens Advice Scotland notes that the Social Market Foundation has proposed a 'formula-based lump-sum payment approach', which provides a payment based on household income and spending on energy. This policy streams the most help towards people on the lowest incomes with the highest energy consumption. Based on energy bills at £3000, this iteration of a social tariff would deliver an average payment of £381. All the public money used to fund it would reach households with lower incomes.[6] This approach would target money effectively at people who need it and provide a long-term solution to the problem of energy affordability.

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[5] Ontario Electricity Support Program | Ontario Energy Board (oeb.ca).
[6] Social Market Foundation and Public First, *Fairer, Warmer, Cheaper: New Energy Bill Support Policies to Support British Households in an Age of High Prices* (2023), pp.6-11.