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CAS response to ENA Future Worlds Consultation

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.

CAS is the Scottish consumer advocate on energy network issues. Although we are separately funded organisations, we work closely with colleagues in Citizens Advice England and Wales in this area. Our response below focusses on Scottish specific points which we believe are important considerations for the ENA Future Worlds consultation.

In the consultation document our organisation would fall under the 'Consumer Protection Party (CPP) as defined on page 41.

Summary of key points

CAS does not have a view on which of the worlds should be taken forward as a first choice. As highlighted on page 41 of the ENA consultation summary document we are 'neutral to whose role it is to facilitate markets' but strongly believe that consumers, as end users of the system must be the principal consideration in any system design. It is also a key consideration that the way any 'future world' is designed does not drive up energy bills. In Scotland 26.5% of households are in fuel poverty¹ and our recent survey showed that energy bills were a key concern for consumers - with 46% of households saying they were worried about energy bills².

¹ <https://www.gov.scot/Publications/2017/12/5401>

² CAS Consumer Tracker Survey 2018 (unpublished)

We believe that an energy system that is evolving to facilitate decarbonisation, under any of the 'worlds' proposed, must consider the following points as a priority:

- 1) Facilitates a market that is simple, clear and easy for consumers to engage with
- 2) Ensures that no one is 'left behind' in the energy system transition
- 3) Prioritises a system that minimises any price increases to domestic consumers
- 4) Ensures regional fairness
- 5) Ensures that the system is designed with 'consumer principles' at its core (see the 7 principles set out on page 4)

The need to recognise the importance of consumer/customer behaviour in domestic flexibility markets

1. Recent modelling by Ovo and Imperial College³ showed that residential flexibility has the potential to save £6.9bn across the sector. This equates to over a £200 saving per household per year. However these predicted savings are highly reliant on consumers engaging in a flexible market (for example, via flexibility services, time-of-use tariffs, smart devices, battery storage and microgeneration) and importantly having access to the up-front capital needed to participate in aspects of the system that require technology which today is often expensive. As is highlighted on page 30 of your consultation document, consumer behaviour is not incorporated in the SGAM models. We would like to reiterate the importance of considering 'behind the meter' consumer behaviour as a key component of any 'future world'. As behavioural economics shows, consumers are not always driven by price and a wide range of factors, such as social trends and ease of use, can influence their behaviour.

Any 'Future World' needs to consider that Scotland may change sooner than other parts of GB

2. We believe that the transition towards a smarter, more flexible and greener energy system is arguably happening faster in Scotland. Compared to the rest of GB, Scotland has more ambitious targets and programmes to: increase renewable energy generation; accelerate the take up of EVs; tackle fuel poverty; expand the role of community and local authority-led energy action and asset ownership; encourage district/communal heating; improve the efficiency of the Scottish housing stock and decarbonise remaining heat supply.

3. This creates what might be considered an accelerated policy context in Scotland for the anticipated energy system changes. If the transition continues to accelerate in Scotland any 'future world' will have to be quickly ready to change and facilitate projects that are already operating in the DSO space- of which there are quite a number in Scotland.

4. Our recently published report *Pylons, Pipes and People*⁴ highlights that there are also a number of Scottish-specific network issues:

³<https://www.ovoenergy.com/binaries/content/assets/documents/pdfs/newsroom/blueprintforapostcarbonsociety-2018.pdf>

⁴ <https://www.cas.org.uk/publications/pylons-pipes-and-people>

- The numbers of island and remote rural communities - which may need smart energy system solutions involving domestic consumers sooner than other places to address network constraints
- The number of community energy initiatives
- The high penetration of on-shore wind power which can create localised network challenges.
- The high proportion of homes not connected to the gas network, relying on electricity for heat (mainly in storage heaters).

5. Any 'future world' must recognise these localised issues and be able to facilitate a smart and flexible system that works for consumers and small businesses at a local level.

Any 'Future World' must ensure that no one gets left behind in the transition to a smarter electricity network.

6. The concept that 'no-one gets left behind' in the shift to a smarter electricity network is recognised by many in the sector. Therefore the electricity system, whatever 'world' is taken forward, should be designed to ensure that the principle of fairness is at the forefront and not solely a consideration. This is particularly important in a Scottish context where there are particular challenges to the smart energy transition e.g. smart meter coverage, network constraint issues, high levels of fuel poverty. To realise this principle in practice, specific efforts will need to be made to enable more vulnerable households to participate in flexibility services and other 'value earning' smart energy activities.

7. As our *Pylons Pipes and People* research highlights the 'social licence' for network companies or any system operator to function is seen to be reliant on them delivering services that do not further isolate those in fuel poverty or in vulnerable situations. This is essential for them to retain their 'social licence' to operate.

Risks for any smart and flexible 'Future World' - the role of third parties

8. While the use of third parties has potential to facilitate the use of innovative solutions in the energy market, giving consumers direct access to third parties introduces a number of risks and challenges, namely around the lack of mandatory consumer protection.

9. CAS recently commissioned Purple Market Research to conduct research⁵ to explore consumer protection in the Scottish and English water markets⁶, with a particular focus on Third Party Intermediaries (TPIs).

⁵ <https://www.cas.org.uk/publications/leading-example-principled-journey-through-regulation>

⁶ The non-domestic water market has been competitive in Scotland since April 2008, and in April 2017 the English non-domestic water market was also opened to competition, so that non-domestic consumers in both countries are now able to shop around for water and wastewater services, including through third party intermediaries (TPIs).

10. The research reported that in the water sector, regulators, licenced providers and even TPIs themselves expressed concerns about consumer detriment resulting from the activities of TPIs that focus more on commercial gain rather than transparent services that meet consumers' needs.

11. The research reported that in sectors such as the finance and legal services, the adoption of 'consumer principles' is considered the 'gold standard' and involve product or service suppliers taking responsibility for determining how best to meet their customers' needs (including protection), stating how those needs will be met, and demonstrating that this is being done. In 2018 CAS published *Leading by Example: a principled journey through regulation*⁷ in which 7 overarching Consumer Principles are set out and if adhered to, will ensure that markets are shaped around consumers. The seven principles are:

- Information
- Access
- Choice
- Redress
- Safety
- Fairness
- Representation

12. However, due to the deregulated nature of the environment they are operating in, consumer protection is reliant on a willingness of any TPI or other service provider to adopt and adhere to any code of practice, such as the Consumer Principles, that is developed for them. Our *Pylons Pipes and People*⁸ reported that industry professionals raised serious concerns during interviews that the DSO's proposed role of neutral market maker for network services will leave the actors in that market (potentially aggregators, community energy projects, suppliers, and other third parties) largely unregulated and free to charge what they can get away with, rather than what the future network charging methodology has carefully worked out is fair.

13. Any 'future world' that relies heavily on the role of third parties must ensure that consumers are not exposed to unacceptable levels of risk or cost.

14. We are pleased to see that many of our 'consumer principles' align with the enhanced customer experience assessment criteria as outlined in section 6.5 of the consultation document. We would suggest that representation, access and redress could be added to the list.

If you have any questions or comments on any of the points raised in this response, please don't hesitate to get in touch.

Dr Jamie Stewart
Energy Policy Officer

⁷ <https://www.cas.org.uk/publications/leading-example-principled-journey-through-regulation>