

Consultation response

Scottish Fuel Poverty Advisory Panel

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To: Georgina Mills, Director for Energy Systems Management and Security

CC: Ofgem Cost Allocation and Recovery Review Team

Dear Georgina,

The Scottish Fuel Poverty Advisory Panel (SFPAP) is an advisory non-departmental public body which provides independent advice to Scottish Ministers on fuel poverty and scrutinises Scottish Ministers' progress towards delivering Scotland's 2040 fuel poverty targets. SFPAP is made up of the following members:

- Matt Cole, Chair of SFPAP and Head of Fuel Bank Foundation
- Kirsten Jenkins, Panel Member and Senior Lecturer in Energy, Environment and Society at the University of Edinburgh
- Alister Steele, Panel Member and former Managing Director of Castle Rock Edinvar Housing Association
- Fraser Stewart, Panel Member and Just Transitions Lead at Regen

The Panel's vision is for a Scotland where everyone lives in an energy efficient home and has access to affordable clean energy – a Scotland where no one lives in fuel poverty. Since it was established on the 1st of January 2022, the Panel has engaged widely across the third sector (including advice agencies and housing associations) and energy sector (including retail and network energy companies and trade associations), Ofgem, and with the Energy Ombudsman and Consumer Scotland. It has also engaged with and is informed by those with lived experience of fuel poverty. The Panel's views are informed by this engagement as well as their own knowledge, experience and understanding.

The Panel recognises the need for reform of how GB's energy system costs are allocated and recovered. It is the Panel's view that ancillary costs such as levies, discount schemes, energy efficiency programmes, and the costs associated with decommissioning the gas network should be funded through general taxation. This reform must be carried out in conjunction with changes to the system of energy support for vulnerable and disadvantaged households. If this does not happen, reforms risk disproportionately impacting some, already disadvantaged, households.

Context

Most energy policy costs for social and environmental interventions are included within consumer's electricity bill. Introduced in the early 2000s, the logic being that everybody has an electricity supply, but not everybody has a gas supply, so costs were spread across all consumers. However, policy costs have increased materially over the last 15 years, and alongside rising wholesale energy costs, have had a greater impact on costs. The transition away from gas and the drive to electrification raises other concerns:

1. If policy costs are spread across gas and electricity then those early adopters of heat electrification will benefit since, as they replace their gas boiler, they also leave some policy costs behind. Those who remain on gas for longer are likely to be the fuel poor and vulnerable who, without support, will not have the financial capability to make a switch and will be end up shouldering a larger burden of policy costs.
2. There is some logic to embedding more standing charge costs in the unit rate for electricity, reflecting that households with electric vehicles and low-carbon heating will use the electricity network more. However, this could also have the adverse effect of increasing costs for those in fuel poverty on direct electric heating systems, who are already disproportionately penalised under the current system. If any costs are to be moved to the unit rate, exemptions must be provided for those in fuel poverty, particularly high electricity users on low incomes or experiencing other forms of vulnerability.

There is further complexity and tension around gas decommissioning costs:

3. The gas networks have, through the RIIO and previous price review processes, had business plans approved by Ofgem that allowed recovery of investments in the network (for instance replacing cast iron mains) over 45 years, although Ofgem is reducing this to align with net zero targets as much as possible by 2050. A reduced number of customers does not mean that the value of the investment to be recuperated will drop, and those who remain on gas for longer will be left paying these costs. These same people are more likely to be the fuel poor and vulnerable.
4. A similar issue remains with the costs needed as the gas network gets smaller, and then potentially closes. There are questions about who ultimately pays for this. It is our view that if the costs fall to those on the gas network at the point of decommission, this is particularly regressive.

Principles for energy system cost allocation and recovery

1. Ofgem, as GB regulator, has a responsibility to recognise the Scottish Government's definition of fuel poverty and the fact that energy prices are currently the most influential driver in increasing levels of fuel poverty in Scotland.

2. Energy prices need to be structured to reduce the risk of households becoming fuel poor:

- Energy bills should include only the cost of providing the network or infrastructure and the energy consumed.

- Ancillary costs such as levies, discount schemes, energy efficiency programmes should be funded from general taxation.
- Standing charges¹ are an appropriate mechanism to recover fixed network costs.
- As zonal pricing is not being pursued for a future electricity market, all geographic areas should be treated equally, and single transmission and distribution cost should apply across the GB grid.
- The decommissioning costs of gas networks should be supported through general taxation not consumer bills.

3. Any reform of the ways in which energy system costs are allocated and recovered needs to go hand in hand with reform of energy support mechanisms for vulnerable and disadvantaged households to mitigate the risk of fuel poverty or to address the reality of being in fuel poverty. The Panel has provided detailed advice on the need for a targeted, flexible, and dynamic discount mechanism (commonly referred to as a social tariff) to Ofgem², as well as the Scottish and UK Governments, with Scottish Government Ministers having written to Miatta Fahnbulleh, Minister for Energy Consumers, expressing their support for a discount mechanism (social tariff). The targeted support mechanism for low-income households needs to be reformed and the scope (eligibility) extended, in addition to the support (amount) being set to reflect current prices and depth of fuel poverty.

- Measures must be taken to support the most vulnerable, including low-income energy consumers, and those who incur high costs to heat their homes.
- Those in greatest need should receive tariff support that covers all their standing charge and a significant unit rate discount.
- To streamline processes, anyone on means-tested benefits should automatically be eligible for this support should they require it. A secondary eligibility route should be available to others who do not claim means-tested benefits but who would nevertheless be likely to suffer detriment if no support was available.

It is also important to remember that key to any changes are technology/metering improvements - something the energy sector has a poor track record in - and data collection and sharing. These require simultaneous consideration.

The Panel would welcome the opportunity to engage with Ofgem once you have considered the evidence from this consultation. We would be happy to do this either with your team directly or as part of a wider stakeholder group.

Yours sincerely,



Matt Cole

Chair, Scottish Fuel Poverty Advisory Panel

¹ The Panel's [response to Ofgem's call for input on reforming standing charges](#) gives more detail on how standing charges should be reformed.

² The Panel have provided principles for the introduction of a targeted discount mechanisms in their response to: [Ofgem's call for input on reforming standing charges](#) (January 2024); [Ofgem's call for input on the future of price protection](#) (May 2024), and [Ofgem's consultation on an energy debt relief scheme](#) (February 2025).