

# **ECONOMY, ENERGY AND TOURISM COMMITTEE**

Wednesday 28 January 2009

Session 3

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## ECONOMY, ENERGY AND TOURISM COMMITTEE 3<sup>rd</sup> Meeting 2009, Session 3

### CONVENER

\*Iain Smith (North East Fife) (LD)

### DEPUTY CONVENER

\*Rob Gibson (Highlands and Islands) (SNP)

### COMMITTEE MEMBERS

\*Ms Wendy Alexander (Paisley North) (Lab)

\*Gavin Brown (Lothians) (Con)

\*Christopher Harvie (Mid Scotland and Fife) (SNP)

\*Marilyn Livingstone (Kirkcaldy) (Lab)

\*Lewis Macdonald (Aberdeen Central) (Lab)

\*Dave Thompson (Highlands and Islands) (SNP)

### COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)

Alex Johnstone (North East Scotland) (Con)

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

David Whitton (Strathkelvin and Bearsden) (Lab)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

The Rev Dr Graham Blount (Scottish Fuel Poverty Forum)

Norman Kerr (Energy Action Scotland)

Jean Morrison (SCARF)

Jim Paterson (Scottish Power)

### CLERK TO THE COMMITTEE

Stephen Imrie

### SENIOR ASSISTANT CLERK

Katy Orr

### ASSISTANT CLERK

Gail Grant

### LOCATION

Committee Room 5



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 28 January 2009*

[THE CONVENER *opened the meeting in private at 09:33*]

09:54

*Meeting suspended until 10:00 and continued in public thereafter.*

### Energy Inquiry

**The Convener (Iain Smith):** It is gone 10 o'clock, so we can begin the public part of this morning's meeting of the Economy, Energy and Tourism Committee. I remind the members of the public who have joined us to ensure that their mobile phones, BlackBerrys or other electronic devices are switched off for the duration of the meeting. Even in silent mode they can interfere with the sound system.

Our only public item of business is evidence taking from a panel of witnesses as part of our energy inquiry. This is the first of what I will call our formal evidence sessions. We have already held round-table discussions on some of the wider issues, and fact-finding visits have highlighted some of the key issues that the committee wishes to examine in more detail before we produce our report. Today we will focus on energy prices, affordability and fuel poverty. I remind members and witnesses to focus on those issues and to avoid straying into areas that we will cover in other evidence sessions.

I thank the members of the panel for coming along. I invite them to introduce themselves and the organisations that they represent and, if they wish, to make brief opening remarks.

**The Rev Dr Graham Blount (Scottish Fuel Poverty Forum):** Thank you for the opportunity. I am the independent chair of the Scottish fuel poverty forum, which is a stakeholder body that brings together fuel companies, charities that are involved in tackling poverty and a number of energy efficiency bodies. The aim and *raison d'être* of the forum is to bring the energy saving, energy efficiency and poverty-tackling agendas together, and to emphasise and increase the synergy between them. That has been the focus of our work, as was reflected in the report that we submitted to the Scottish Government towards the end of last year.

**Norman Kerr (Energy Action Scotland):** I represent Energy Action Scotland, which is the Scottish fuel poverty charity. We are active members of the Scottish fuel poverty forum.

**Jean Morrison (SCARF):** I am the chief executive of SCARF, which stands for save cash and reduce fuel. We are a charitable organisation that is based in Aberdeen and which covers the whole of the north-east of Scotland. We have energy advice projects that target the fuel poor in Moray, Aberdeenshire, Aberdeen, Dundee, Angus and Perth and Kinross.

**Jim Paterson (Scottish Power):** Good morning. I am the sales and marketing director at Scottish Power. I am very pleased to attend the meeting and, following the presentation that we made to the committee at our grid control headquarters in Kirkintilloch, would be happy to provide any further information that it desires.

I am responsible for the marketing of products and services to our entire customer base. In addition, I am responsible for the delivery of our carbon emissions reduction target programme and our social initiative programme, which addresses fuel poverty. Scottish Power is working closely with the Scottish and United Kingdom Governments on those issues and is pleased to be a member of the Scottish Government's fuel poverty forum and the Scottish CERT strategy steering group.

We welcome the recent announcement on the energy assistance package, which we hope will address some of the issues that face Scotland when it comes to insulating existing housing stock, and the co-ordination of all the stakeholders who are involved in providing affordable warmth for Scotland's homes.

**The Convener:** Thank you. We will now move to questions. We are looking to develop recommendations for our final report on energy, so if there are any particular recommendations that you think that we should include, now is your opportunity to highlight them.

I will begin with a general question on fuel poverty. The Housing (Scotland) Act 2001 includes a statutory target to eliminate fuel poverty in Scotland by 2016. Does the panel think that that is achievable? We will start with Graham Blount.

**Dr Blount:** Our report proposed a new energy assistance package, the bulk of which has been accepted by the Government. We look forward to it being implemented, which we believe will significantly improve the situation in Scotland. However, we made it equally clear in our report that, without a step change in investment in tackling fuel poverty—wherever that comes from—we will not hit the target. We cannot reasonably expect cheap energy to get us there, so we must

consider other dimensions. A significant step change will be needed to achieve the target.

**Norman Kerr:** Work that Energy Action Scotland did back in 2006 suggested that a 10-year investment programme of £170 million per year for the 10 years to 2016 was needed to attempt to bring all homes in Scotland up to a reasonable energy efficiency level. We recommended attaining a national home energy rating score of 7, given the state of housing at that time. We have moved on two years, but we still require £1.7 billion of investment.

It is interesting that Energy Action Scotland and the fuel poverty forum exercise themselves about rural areas in particular. Many insulation products and programmes offer little for rural communities that are off the gas grid or for homes of non-traditional construction that have solid walls or no loft. We are concerned that we are not addressing such properties.

The answer to the convener's question is that we can reasonably say that the target could be achieved by 2016 but, as Graham Blount said, significant investment will be needed to do that in the remaining eight years.

**The Convener:** Panel members do not have to answer a question if they do not want to, but if they want to add anything, they can do so.

**Jean Morrison:** We must consider the Scottish Government's definition of fuel poverty, which is when a householder must spend 10 per cent or more of their income to heat their house to a reasonable standard. SCARF has been in business for 23 years. When it started as an urban aid project to deal with fuel poverty, fuel poverty was not necessarily a recognised issue. Now, thanks to the UK and Scottish Governments and to organisations such as Energy Action Scotland, it is widely recognised as a major problem.

In the years in which I have been involved in the business, many schemes have been introduced to insulate houses and other properties. The new assistance package is useful in that respect. The problem in past years has been in rural areas—where some people are in extreme fuel poverty—because those areas have totally lacked installers. All the organisations involved say that they will provide services in rural areas, but going into the heart of Aberdeenshire, Moray or the Highlands is expensive. We must consider those areas.

The question whether we can achieve the fuel poverty target by 2016 concerns not just houses, but the people who live in those houses. Under the proposed new energy assistance package, people will be able to have a benefit check by telephone, but they will not have face-to-face advice, which is essential. In casework last year—casework just involves contact more than once with a client—my

organisation dealt with 12,688 households that were in fuel poverty. We gave them in-depth one-to-one advice that included home visits, telephone calls on their behalf and working with fuel suppliers to ensure that the clients received the right tariff. Many fuel companies are starting to address fuel poverty by providing social tariffs. We must ensure that people who are in fuel poverty and who are eligible for such tariffs receive them. The fuel poor are the people who need help most, and one-to-one, face-to-face advice—not just advice by telephone—is required.

**Jim Paterson:** I will pick up on a comment by Jean Morrison. I reinforce the point about the level of unclaimed benefits. As I said when the committee visited Kirkintilloch, the Department for Work and Pensions has said that in 2006-07, between £9 billion and £10 billion of benefits were unclaimed.

One of the schemes that we sponsored was a warm zone scheme in Newcastle, the findings of which suggested that for every pound we spent on income maximisation, we would get a return of £20 via a customer claiming one of their benefits for the first time. That is a huge issue in its own right—whatever package is put together should be an holistic one that addresses all three elements of fuel poverty, one of which is income level.

**The Convener:** Graham Blount, can you give a bit more detail on what responses the Scottish fuel poverty forum has had to its report, "Towards 2016 - The Future of Fuel Poverty Policy in Scotland" since its publication in September?

**Dr Blount:** The forum is a stakeholder body, so most of the organisations central to the discussion are part of it and, therefore, contributed to the report. Part of the process of the report was to build consensus among the different stakeholders, all of whom have different interests to pursue.

The forum, which has met once this month, has been pleased with the Government's response to the report. Our central recommendation for an energy assistance package is broadly being implemented, albeit it with some tweaking around the edges. We have seen a small improvement in the amount of investment, although it is not the step change that I mentioned and which is mentioned in our report.

We have yet to take forward directly some of our other recommendations, principally those for the UK Government and the Office of the Gas and Electricity Markets. We are in the process of talking to parallel bodies elsewhere in the UK about the issues that are to be pursued at that level. I hope to do that as a matter of some urgency, having got the forum going again after a hiatus while we waited to see whether we were to continue. We are anxious to pursue those issues

and we have recommendations about social tariffs and prepayment meters that seem particularly relevant to what the committee is discussing today.

**The Convener:** Jean Morrison referred to the definition of fuel poverty. Gavin Brown might want to follow that up.

**Gavin Brown (Lothians) (Con):** My question will be a little opaque; I hope that the panel will bear with me. In papers prepared for the committee, the figures on fuel poverty in Scotland show that there was a massive reduction between 1996 and 2002: some 756,000 households were in fuel poverty in 1996, but that was down to 293,000 in 2002. That was a big success. The figures for 2007, however, are back up at 586,000 households. It is almost like a V on a graph. I suspect that that increase in numbers is largely down to fuel prices rising faster than salaries and benefits.

If I am to be fair to both the previous and current Administrations—I do not have an interest in either—a lot of work has been done by the groups that the witnesses represent, by suppliers and Governments. However, judging by current figures on fuel poverty, we appear to be fighting a losing battle. Fuel prices have come down by 10 per cent recently, but experts think that it is likely that they will go back up in the medium term. If we hold to the widely accepted 10 per cent figure and energy prices keep going up, we will only ever see more depressing fuel poverty figures, yet genuinely fewer people might suffer from cold houses because of the measures that have been taken.

Although changing a definition helps no one on the ground, that was a roundabout way of asking what the panel's views are on the definition of fuel poverty and whether we should use some other measure of success, as opposed to the current measure of fuel poverty?

10:15

**Dr Blount:** To an extent, the forum agrees that the current definition of fuel poverty is by no means perfect. One issue is that it may underestimate the amount of real spend required by families with young children to keep their houses warm. It also blurs the fact that there appears to be a tendency for pensioners to spend less than the figures suggest that they should, because they are not willing to keep their house warm—they sit in one room or go out to warmer public places and adopt other strategies.

The figures can mask such issues, but we believe that an element of continuity in tracking the situation over time is important. It is reasonable to think that people should not have to spend more than 10 per cent of their available income in

keeping their house reasonably warm. That is a statutory target and it is a reasonable one. It may be depressing if fuel prices keep going up and we are unable, by tweaking other parts of the equation, to keep the figures going in the right direction, but that is being realistic about the situation that people face.

**Norman Kerr:** We have had this definition of fuel poverty since the late 1970s and it is what we have measured progress against.

Gavin Brown is right to refer to the number of people in fuel poverty dipping and then rising. Analysis indicates that 50 per cent of the dip was caused by a reduction in fuel prices; the other 50 per cent was down to increased energy efficiency, income maximisation and people's disposable incomes rising. We therefore cannot put all the blame on or give fuel prices all the credit for being the only driver of fuel poverty but, as we have said previously, the homes that have been tackled so far are what we could consider to be the low-hanging fruit.

The Scottish Government produces a report on the benefits of the central heating programme—the most recent was for 2005-06. The case studies in the report indicate that when a home has been heated by solid fuel or oil and that system is replaced with a modern, efficient heating system, the price that people can expect to pay for fuel can be reduced by £500 or £600. We therefore know that investments in energy efficiency reduce the overall amount of fuel that someone needs. The CERT programme also aims to go down that route and many suppliers are targeting their endeavours on the measures that will save most energy. The best thing that we can do to flatten out the fuel poverty figures is to invest in energy efficiency: the more efficient someone's home is, the less fuel-price fluctuations impact on their weekly outgoings. If someone spends £1,000 a year on fuel, a 10 or 15 per cent rise is quite significant, but if they spend £300, such a rise is less significant.

It is all about getting the measures right. The energy efficiency of homes, which the warm deal and central heating programme have been tackling, is well below what we hoped would be the average. The Scottish housing quality standard set an aspirational target of a national home energy rating of 5, but many of the homes that were targeted through those programmes were down at an NHER of 2, 2.5 or 3. We have tackled some homes, but that has been done at the expense of rural communities. The breakdown of the figures shows that only a quarter of all homes tackled under the Government programmes were in rural communities, while 75 per cent were in urban areas, despite the fact that the rural areas are the areas of greatest fuel

poverty. We have taken the low-hanging fruit in areas where, as Jean Morrison rightly says, there is a concentration of homes; there is less of a concentration of homes in the rural communities and they are more difficult to reach.

The definition of fuel poverty is absolutely fine, and we need to benchmark ourselves against that. Indeed, the definition of an adequate heating regime as being a safe environment for people to live in is acknowledged by the World Health Organization. I do not think that we should be looking to revise the definition.

**Jean Morrison:** I agree that the definition should not be changed, but it must take into account the overall temperature throughout the house, not just one room. We have a team of around 20 energy advisers. Often, when they go into someone's house, especially in the winter, even though the room that they go into has a warm glow because the fire is on, they can tell that the heating has been put on only because they were visiting. The problem with heating only one part of a house is that it can cause problems with condensation and dampness. When the living room door is opened, the heat disappears and goes to the coldest part of the house. We invariably find problems of condensation and dampness behind wardrobes and so on.

We have to look at households holistically. We should consider not only the insulation and the heating system but the people who are living in that house. A house that is damp and has condensation will smell, and the kids who live in that house will carry that smell with them when they go to school, which can cause them to be social outcasts. They might not like to bring other children home with them because their house smells, or, if they do not notice the smell themselves, the other children will notice it and will not want to go to their house.

That problem exists not only in deprived parts of cities or rural areas. People think of Aberdeen, for example, as having a good economy and as being a place where people get high salaries. However, the impact of oil on the town has not brought salaries up, although it has raised the price of living and the cost of houses. We are finding that many people who come to us are not people who you might consider to be the traditionally fuel poor. They are not the people who are targeted through the new package that is being proposed, but they are people who genuinely need help. People who are disabled, have no children and are under the age of 60, for example, are not eligible for the new package, although they might need to keep their house heated all day. As I said, we need to look at a household holistically and get in and do what we can to deal with the dampness and condensation, ensure that the people are getting the benefits that

they are entitled to and work out whether we can find a better way in which they can pay their fuel bills.

We must ensure that any heating system that is installed is affordable. Two years ago, a gentleman in Perth had an oil central heating system put in. In those two years, we have twice had to seek charitable funding so that he can get his oil tank filled up. Before people get a heating system installed, they need to be educated so that they know what they are getting in and what it will cost. Having a heating system that you cannot afford to run makes your situation worse. The gentleman in Perth had his open fire taken away, so he could not even burn rubbish or wood that he picked up for free. He was sitting cold in his house. That is what the central heating programme has done for some people.

**Jim Paterson:** I agree with all the comments that have been made.

I cannot comment on what will happen in the oil and gas markets, but I think that it is fair to say that, over the next 10 years, substantial investment will need to be made in the energy infrastructure in the UK. The Government believes that it might take £100 billion over that period to keep the power stations and associated infrastructure going and to meet renewables requirements. That means that, in the long term, there will be upward pressure on fuel prices.

The only other factor that I would mention is that of behavioural change. When we provide a package to a customer, the deal is that they have to budget correctly in terms of how they use their electricity and gas. It is important that someone who gets central heating for the first time is aware of how to use the controls to ensure that they are not overheating the property, as that can drive costs up quite radically. That aside, I agree with the 10 per cent rule. If we made it another number, we would be kidding ourselves.

**Dave Thompson (Highlands and Islands (SNP):** I would like to follow up on the figures and whether you are confident that they are accurate. There seem to be slight discrepancies in the figures in the documents that I have read. The Scottish fuel poverty forum report states:

"Energy Action Scotland's estimate is that 850,000 (29%) of households are likely to be fuel poor in Scotland."

However, in its submission, Energy Action Scotland estimates that, based on figures from around a year ago,

"there are currently in excess of 700,000 households, one in three, in fuel poverty in Scotland."

I seem to have figures that are slightly different from those that Gavin Brown quoted. How



confident are you that the figures for the number of people in fuel poverty are sound?

**Norman Kerr:** The figure is certainly not 29 per cent—it is 36 per cent. The fount of all wisdom and knowledge for the figures is the Scottish house condition survey team, which has an on-going role in monitoring the energy efficiency of our housing stock and fuel poverty figures. It has readjusted its figures, so there may be differences in those that you read—indeed, it has put forward new figures in the past six or eight weeks. It recalculated the figures going back to 1996 on the basis of current modelling and factored in elements that it was unable to factor in before, which has moved around 30,000 or 40,000 households. Somebody may have a figure of 230 for one year and somebody may have a figure of 250, but that is simply because of the modelling. I am sure that if the clerk wrote to the house condition survey team, it would provide the committee with the most up-to-date figures that have been published.

The Energy Action Scotland figure of 850,000 fuel-poor households, which is based on 2008 figures, was arrived at using the house condition survey team's calculations. Its figures were for 2006-07. It must take a snapshot in time when its survey is finished, but because it surveys several thousand houses every year, its calculations can be a year or so behind. Its figures therefore always lag behind. However, as EAS says in its submission, as a general rule of thumb,

"for every 1% rise in fuel prices an estimated 8,000 more households would go into fuel poverty."

As I say, Energy Action Scotland's figures were based on figures for 2006-07. The projection forward was based on the price rises that occurred over 2007-08. Scottish Gas's 10 per cent decrease in gas prices—we are talking about gas prices only—will have some effect, but not all suppliers are doing what it has done. We cannot reasonably say that that decrease equates to 80,000 households being taken out of fuel poverty because not everyone uses gas and not everyone uses gas as a heating fuel.

**The Convener:** Thank you. That is helpful.

**Lewis Macdonald (Aberdeen Central) (Lab):** I want to pick up on the point that Jim Paterson made about the cost elements—I think that he mentioned the industry's future investment needs. One element of the typical pound that an energy company charges a customer will be for raw material costs and another element will cover tax on profits. What is your estimate of the element that covers the industry's capital needs, the renewables obligation, carbon levies and other costs that are built into prices to pay for actions that the Government is promoting to tackle climate change?

**Jim Paterson:** Energy costs account for between 50 and 60 per cent of bills. The rest are user system costs that cover wires, cables, transmission lines, the renewables obligation, tax, CERT and so on. I will forward the exact breakdown to the committee—I do not have it with me.

**Lewis Macdonald:** Are the additional costs to the consumer—of CERT, the renewables obligation and so on—pitched at a level that is commensurate with preventing people from becoming fuel poor?

10:30

**Jim Paterson:** The fundamental purpose of CERT—and of the schemes before it—was not to reduce fuel poverty but to reduce carbon dioxide emissions. However, the creation of a priority group has taken CERT into the world of fuel poverty. CERT is focused on carbon reduction, but it contains an element of assistance to reduce fuel poverty.

**Lewis Macdonald:** What are the panellists' views on the difficult balance to be struck between mitigation of carbon emissions and its impact on costs for consumers?

**Dr Blount:** The clear view of the Scottish fuel poverty forum is that it is crucial to get the two agendas working together. Spending on carbon reduction should be focused on areas where it will have the most impact on fuel poverty. That is what our package of measures seeks to do.

Some of the easier ways of reducing carbon can be found at what might be described as the fuel-rich end of the market. Therefore, to maximise the carbon reduction for your investment, it can be tempting to aim at that end of the market. However, spending on carbon reduction and energy efficiency should be focused on the people who are most vulnerable to fuel poverty.

**Norman Kerr:** Certain situations can move people in and out of fuel poverty. It can depend on their circumstances; for example, whether they are in employment or not, or whether they have reached a milestone such as retirement.

Jim Paterson spoke earlier about the warm zone approach. That approach tackles an area and covers all homes. It does not focus only on fuel-poor or fuel-rich homes, because although a home might be fuel poor today, the tenant might move away and be replaced by someone in a better-paid job, so that the home will no longer be fuel poor. Similarly, a person in a well-paid job might move away and the next tenant in the home might be in a very low-paid job.

The carbon emissions reduction programme is about making homes more efficient so that they

emit less carbon—it is not about the person. Economies of scale can be achieved through that approach, so the endeavour is worth while. Jean Morrison spoke earlier about face-to-face advice and many of the warm zones that operate in England will offer such advice. Someone will chap your door to offer support, do a benefits health check, and give energy advice. A holistic approach is taken to the house.

The fuel poverty forum has recommended that, within region-based energy assistance packages, we should take an area-based approach. We cannot take such an approach in all areas immediately, but we can certainly undertake work in some areas. Work is being done in Aberdeen, or shortly will be, to tackle a group of 700 homes as a mini warm zone. The community energy services package—CESP—which the Prime Minister has announced, will provide funding for about 10 area-based approaches in Scotland. That is a way forward. Carbon reduction certainly has an impact on fuel poverty, but it depends on the individual circumstances of the occupant of the home.

**Jean Morrison:** There is a dilemma in relation to fuel poverty and carbon saving programmes such as CERT. As Norman Kerr said, getting a property insulated means that it is almost fuel poverty proof. We need to recognise that both the Scottish and UK Governments have carbon emissions reduction targets which, in many ways, conflict with the approach to fuel poverty.

In considering eligibility for various schemes, we should use the figure of 10 per cent as the baseline for fuel poverty, and tackle the needs of people who are in extreme fuel poverty and paying 20 per cent of their income to heat their houses. We should consider how to balance that with the need to achieve carbon emissions savings, which will have a major effect on the UK's overall contribution.

In many cases, if we give the right advice and put the right heating system and insulation in place, it is likely that the person who lives in the house might be adding to carbon emissions because they will be using their heating, whereas they were previously going cold instead. We would be improving the comfort level of that household, but we need to strike a balance between the need to make carbon savings and the need to tackle fuel poverty.

Those needs meet at the point where, as Norman Kerr mentioned, people go in and out of fuel poverty. The needs of people who are in extreme fuel poverty and of those who live in houses that are leaking like sieves must be addressed. As an incentive for the fuel companies, some sort of balance could be struck in relation to the amount of carbon savings that can be gained

from fuel-poor houses and from non-fuel-poor houses. The same loft insulation might be installed—up to 250 mm of insulation—but there might be more carbon savings for the fuel-poor property, which might provide an incentive for installers to work in rural areas.

**Dave Thompson:** On CERT and the problem of targeting, the Scottish fuel poverty forum report made it clear that in England in particular, there is concern that CERT seems to focus less on low-income households. The report states:

“It would be a concern to us if this were happening in Scotland”

—which implies that we do not know whether it is happening here.

You say that you do not currently have a breakdown of CERT activity levels in Scotland, but the energy companies have agreed in principle to provide those data in the future. It is quite important that we focus on that issue so that we can be sure whether it is happening in Scotland, and whether we have the necessary information. Has there been any progress along that road?

**Jim Paterson:** Yes. There are one or two interesting challenges for suppliers in that area. We have a statutory obligation to deliver CERT at least cost, and the costs will be recycled back into our tariffs. The homes that are harder to heat are the most expensive to heat. With regard to targeting, we support the warm zone approach, which offers the opportunity to co-ordinate all the parties and the funding, and to take a door-by-door, street-by-street approach. Without doing that, we do not know who our fuel-poor customers are until we do a benefits health check for them.

We support sharing data from the DWP so that we know who qualifies for grants and so on, so they can get free insulation from a supplier. There is a dilemma—our costs are dearer for treating customers who are in fuel poverty because our starting point is that we do not know who they are. We tend also to find that they live in houses that are the most difficult to heat, which puts up the costs. We have to perform a constant balancing act between meeting our licence obligation and addressing fuel poverty through CERT.

**Dave Thompson:** Are you able to share data with the DWP, or is that a problem?

**Jim Paterson:** It has come on a long way—the DWP is sensible about giving out data. All suppliers are saying, “If you can give us the data, we would understand who the customers were and who would benefit.” We are in discussions with the DWP about trying to get more data.

**Norman Kerr:** There are a couple of interesting points on that. The data from the DWP will be only on pensioners—it will not be on other people on

benefits who might be fuel poor. It will give information on one particular sector, but not all pensioners—as we know—are fuel poor. The figures that we have for fuel poverty in Scotland indicate that a proportion of the people who are affected are pensioners, but the majority are not.

Jim Paterson was right to say that CERT must be delivered at least cost. Energy Action Scotland recommended that Ofgem reviews CERT. In our view, CERT as it is currently structured does not serve the Scottish consumer well. The kilowatt-hour savings that energy companies get are based on a house somewhere in middle England with a theoretical energy usage of X. However, figures that were provided by Stewart Maxwell in answer to questions from Alasdair Allan only a week or so ago show that a home in Braemar costs more than 65 per cent more to heat than a home in Bristol. The home in Scotland, because of its construction type, will have a cavity that is at least 50 per cent bigger than that in England. The savings that are accorded to CERT suppliers do not take into account climatic conditions or type of house construction. That means that, for CERT suppliers to deliver effectively, they must deliver to big concentrations of homes, especially homes in England, which will give them the biggest theoretical savings.

We have asked Ofgem to examine the issue rigorously, because we believe that more savings could be accorded to make it more attractive to improve the energy efficiency of houses in Scotland. Suppliers would then be more willing and able to spend more of their money on Scotland's homes. Based on a Barnett-type formula, we believe that about 10 per cent of total CERT spending for the UK should be in Scotland, but our calculations indicate that the figure is currently somewhere between 5.5 and 7 per cent. We suggest that we are losing out at the moment and that the rules, especially as they are administered by Ofgem, need to be revisited so that we get a fairer share of the CERT budget.

**Jean Morrison:** To get individual householders referred to a CERT programme, we must take advice into the community. That is why front-line organisations such as SCARF conduct community advice sessions. Last year we conducted 365 such sessions. I do not have the exact figures, but I reckon that many of the people who came to us were referred either to one of the Government programmes—the warm deal or the central heating programme—or to a CERT programme.

I work in six different local authority areas. All of those authorities work closely with the fuel suppliers to bring CERT funding into their areas. It is about working in partnership, not working in competition. If local authorities have property or access to owner occupiers, they should work with

fuel suppliers to get out information. Local authority benefits section representatives have been present at many of our advice sessions and roadshows—that approach works.

Reference has been made to the funding that has come into the Aberdeen area and to warm zones. We are targeting solid-wall tenement buildings and work is now starting to be done on those. It is important to get different groups together—we must work in partnership to move forward.

**Lewis Macdonald:** Norrie Kerr said that between 5.5 and 7 per cent of CERT spending for the UK is in Scotland. What is the amount of that spending? How much of it comes from the energy companies, as opposed to the Government?

**Norman Kerr:** All CERT funding comes from the energy companies.

**Lewis Macdonald:** Roughly how much does the 7 per cent that you mentioned represent?

**Norman Kerr:** I am sorry—I would need my calculator or to have my socks and shoes off to work that out.

10:45

**The Convener:** It would be helpful if you could notify us of that in writing.

**Marilyn Livingstone (Kirkcaldy) (Lab):** We have talked quite a lot about targeting. What can we say in our report that the Government should do better in order to improve targeting so that help is given to those who are most in need of it?

MSPs often get people coming to their surgeries who are in emergency situations, which are difficult to deal with. It is difficult to move someone on when their heating has been condemned—usually, they are the most vulnerable people. How can we deal with such emergency situations?

**Norman Kerr:** On targeting, the Scottish fuel poverty forum recommended that a regional approach be taken. That approach would be helpful, as it would use the energy efficiency advice centres—one of which is run by SCARF—which are well equipped to understand local needs. We can do more outreach work through advertising and the roadshows that Jean Morrison mentioned. However, we also need to set aside funding for the warm zone or area-based approaches so that we can target specific areas.

We already have a fuel poverty map of Scotland, so we are aware of the areas in which there is the greatest risk of fuel poverty. That map is readily available to most practitioners, local authorities, registered social landlords and advice agencies. We need to target our resources on those areas, and we believe that having an area-based

approach in each of the five regions that we have outlined will go a long way towards ensuring that that happens.

The issue of people in crisis situations is difficult. Any programme of this size has trouble reacting to crises. Energy Action Scotland recognised that as being a difficulty with the old warm deal and central heating programme—people who made emergency applications when their heating had broken down had to wait four months or more to have their heating replaced because it took a long time to move through the process.

We have suggested that there is a need for some form of social maintenance contract that will cover the maintenance of a central heating system and will ensure that the central heating system will, if it breaks beyond economical repair, be replaced free of charge as part of the maintenance programme. The business community has expressed some interest in delivering that. Some people believe that the Scottish Government should provide that, but we do not think that would be sensible use of the funds that are available for the warm deal and the central heating programme. Many people already put money aside to ensure that their central heating system is maintained. We need to encourage the industry to provide an affordable product that will ensure that people can get a response in an emergency.

**Jean Morrison:** Emergency situations can be difficult to handle. The current programmes do not have a priority system for people whose central heating systems need to be replaced, and it is not proposed that there will be such provision for emergency situations in the assistance package.

Front-line organisations such as ours are able to help people whose heating has totally broken down by temporarily providing them with standalone heaters. However, that kind of intervention costs us money. The heaters need to be subjected to portable appliance testing both when they are given out and when they are taken back in. Many local authority social service departments provide similar interventions. From that point of view, as long as local agencies on the ground know how to access such interventions, they can be helpful. Such services are provided by organisations such as SCARF and are funded not by the energy advice centres but by other sources. We need to be able to implement such interventions and to get the word out about what is available.

Another thing we have found is that emergencies are not just about heating but about people being warm at night when they go to their bed. Two or three years ago, we successfully secured funding from the ScottishPower Energy People Trust Fund to run an affordable warmth project, which we called the cosy homes project.

We found that making referrals for insulation and central heating was straightforward—we struck up the partnerships and got the referrals put through—but people really needed the bedding packs and starter packs that provided perhaps a kettle or microwave oven. That idea was taken from a successful warm zones project that took place in Dundee a number of years ago. An holistic approach is required that involves going into the person's house to see what is actually needed and to help with that. Our funding for the cosy homes project is just about finished, so we are currently in the process of seeking other intervention funding so that we can give people, for example, a new quilt cover and pillows to keep their children warm at night. Such matters need to be considered as part of holistic consideration.

On interventions, I know that the Dundee project has an intervention fund whereby, if people turn up on a Friday because they have no money to put in their meter, they can get their card topped up. That is about tackling self-disconnection, which we also need to consider. The issue is not just central heating or insulation.

**Jim Paterson:** From a supplier's point of view, we target a lot of our efforts through the trust fund to which Jean Morrison referred. We work with more than 100 not-for-profit organisations that know where the issues are—that is why we work with them—because they are much closer to customers who are likely to be in fuel poverty. So far, we have helped 100,000 households and about 240,000 people with fuel poverty issues.

We also have a priority services register for which we ask our customers to sign up. The new social tariff that we recently launched will automatically apply to those 50,000 customers.

On Jean Morrison's point about the need for a package of measures, the package should be roughly that the customer receives the best tariff available, gets a free benefits health check, receives energy efficiency advice and qualifies for free CERT insulation measures. The customer should also be given a hand with debt advice. As well as taking the customer out of fuel poverty, we need to ensure that the customer stays out of fuel poverty by managing their accounts.

**Marilyn Livingstone:** There seems to be a loophole in that those who approach us because they have no heating at all are given standalone heaters, which are expensive to run. All MSPs have probably encountered that problem. I just wondered what we should recommend for individuals who find themselves in that situation.

People have talked about the importance of insulation, on which I think we are all agreed. With the recent volatility in the construction industry—we have heard evidence that there is a loss of

skills within the industry—are there concerns that the industry might lack the skilled workforce to meet the targets?

**Norman Kerr:** Yes and no. For traditional insulation measures such as loft insulation and cavity-wall insulation, the sector is currently underutilised. A number of companies have withdrawn from such work because demand is not the same as it was perhaps five or six years ago when big local authority contracts were available. Skills in that part of the sector are underutilised and, for a variety of reasons, several companies have withdrawn from such programmes.

Skills of that sort can be learned relatively quickly and the industry will gear up or pull back—depending on available funding—to do that. I have no concerns about that, but I am concerned when I hear talk of new measures including air source heat pumps, internal dry lining and external cladding being introduced into the new package. That part of the construction industry is marginalised at present—it is not a big part of the industry. If the industry is to move from fitting a handful of those heat pumps a year to fitting thousands of them each year, we will need to look at reskilling the workforce. Even with the best will in the world, a heating engineer who is used to fitting gas central heating systems will require retraining for the slightly different skills that are needed to fit heat pumps and the like. Different technologies are involved, so we will have to retrain part of the workforce if we are to meet the proposed new measures. There is no shortage of traditional skills—the low-key skills, if I can call them that—to meet the challenges that lie ahead for the industry in that regard.

**Marilyn Livingstone:** I turn to the issue of pre-payment meters. Differing views on the subject have been expressed in the evidence that we have heard thus far. Some people have said that they are a good thing whereas others have described them as expensive. Recently, I was asked to visit a Traveller site in my constituency where pre-payment meters were fitted. I heard much criticism and many complaints from the Travellers on the increased cost of using the meters.

I am also interested in smart meters and appliances. Obviously, there are not nearly as many of them in use as there are pre-payment meters. What are the panel's views on pre-payment meters, particularly when fuel-poor people have to use them? What are the benefits, if any, of smart metering? What recommendations should we make on the subject?

**Jean Morrison:** Several issues are involved in the question. First, pre-payment meters are useful for people who have difficulty in budgeting, albeit that the tariff tends to be more expensive. Also,

having to pay in advance for their energy supply can put people at a disadvantage if the tariff is at a slightly more expensive rate. The issue needs to be looked into and the Government should talk to the fuel suppliers about it.

Also, all fuel suppliers use pre-payment meters to collect debt. Indeed, the big issue in that respect is the high repayment rates that suppliers set in reclaiming moneys through use of such meters. The one-to-one intervention that organisations like SCARF provide is helpful in that regard. We can arrange for the level at which debt is repaid to be reduced as much as possible. I believe that debt repayment should be done at the Department for Work and Pensions fuel direct rate. This low rate is affordable for people and enables suppliers to reclaim the debt.

Another issue for those on pre-payment meters is the standing charge. Even if people self disconnect so that they do not have to top up their meters, they still clock up the standing charge. When people refill the meter, the standing charge is automatically deducted; people do not get as much fuel for their pound as they expect.

Last week, following the Scottish Gas announcement of its 10 per cent discount, Grampian Television asked to film us paying a visit to one of our clients. We visited Colin who lives in a fairly comfortable bedsit in the centre of Aberdeen. Colin lives on a £40 a week Jobseekers allowance, of which £15 goes to pay for gas and £5 for electricity. His 92-year-old mother is cross-subsidising him to enable him to stay in the bedsit and keep reasonably warm.

We found that he had moved his bed from the bedsit into his kitchen because, that way, he could live in the kitchen. He is just a lad of 40-odd who pays for his fuel using a card meter. He is slightly disabled, and the fact that his meter is above his front door means that he has to put two chairs together and balance on them to put his card in. That is an example of an issue around prepayment meters.

On the other hand, most of the people who do not have fuel debt like and want to keep their prepayment meters because they give them a way of budgeting, in that they know how much money they put in. When they pick up their pensions, they top up their card with £10 or £15 a week. In many cases, they keep on doing that, which means that they build up credit so that when it comes to winter, they still only pay £10 or £15 a week. Prepayment meters have advantages as well as disadvantages.

11:00

**Marilyn Livingstone:** I can see the advantages, but I have always found it difficult to come to terms

with why people who have such meters have to pay the standing charge and why their fuel costs more. Why is that the case?

**Jim Paterson:** There are several elements to that. The provision of prepayment metering involves an additional cost, as the infrastructure has to be supported throughout the UK. As you are probably aware, Ofgem has undertaken a pricing probe in the past few months and has said that the increased prices that we charge for the infrastructure reflect our costs. In other words, the regulator recognises that there are increased costs involved in the provision of prepayment metering.

As regards prepayment prices being dearer, it is disappointing that other suppliers have not turned up to today's meeting, but Scottish Power's prepayment gas and electricity prices have been cheaper than our standard credit prices for nearly two years. That is a deliberate policy on our part to ensure that customers who struggle with their bills do not pay the dearest tariffs. In our case, our prepayment tariffs are cheaper than our standard credit tariffs.

We have launched a social tariff, as some other suppliers have done. In the example that Jean Morrison gave, the customer involved would probably be entitled to be on a social tariff, which would mean that, regardless of what he pays now, the tariff that he would be on would reflect the cheapest tariff that was available from his supplier. A customer who, in changing to a social tariff, moved from a credit tariff to the equivalent of an online tariff could save £200 a year.

Scottish Power is extremely supportive of the use of smart meters throughout the UK. We have evidence that when someone is aware of their consumption on a daily or hourly basis, it can change their behaviour. We would certainly support the roll-out of smart meters, and we are working closely with the regulator to ensure that that happens.

**Dr Blount:** The forum's primary concern is about fuel-poor customers who do not have a realistic choice and who have a prepayment meter because they have to have one. The fact that some people choose to pay a wee bit more because it suits their budgeting method is a side issue. We are seriously concerned that some of the most vulnerable people end up paying the highest prices for their fuel.

Although I hear what the fuel companies have said on the subject, concern is still being expressed in the Ofgem probe about price differentials that do not appear to have full cost justification. We want that issue to be given serious consideration in the debate about social tariffs. The whole point of a social tariff is that the

customers who are in the greatest fuel poverty should not be those who pay the most for their fuel. If prepayment charges contradict that aim, the left hand is undermining what the right hand is doing. We need to get prepayment charges and social tariffs running together, and we need to do that in partnership. I am hopeful that Ofgem can deliver a result, given the direction in which it is going. Price differentials have been an issue for a number of people for quite a long time.

In addition, there have been some short-term issues to do with how price changes are reflected through the prepayment meter system. Last year, that was a huge problem—for a relatively small number of people, but it was still a huge problem—because of price increases. It took people a bit of time to feed those increases into prepayment meters, so there was an element of back-charging. We hope that lessons were learned from the process and that that will not happen again.

**Jim Paterson:** The social tariff is the cheapest rate available, regardless of the current charge. If the current tariff is a prepayment tariff, that is immaterial. Typically, the cheapest tariffs in the UK are direct debit tariffs; suppliers will provide that rate on a prepayment meter.

**The Convener:** Jean Morrison mentioned the recovery of fuel debts through prepayment meters. Are the fuel companies looking at the level of debt recovery? We have all heard anecdotal evidence of people topping up their cards, sticking them in and finding that within five minutes they have no power again, because debt has been taken off.

**Jim Paterson:** We will speak to all our customers for whom the debt recovery rate is an issue. That is a fundamental principle of our debt collection and family-friendly policies.

**Rob Gibson (Highlands and Islands) (SNP):** I return to the issue of skills. Under the central heating programme, there have been many complaints about subcontractors for all energy forms using particular materials in non-standard properties. We must have a clear picture of the skills base that we require for all the energy improvements that we are discussing. I represent the Highlands and Islands, where there are many non-standard properties, and have casework in hand. Would members of the panel like to comment on the issue?

**Norman Kerr:** Can you explain what you mean by substandard work?

**Rob Gibson:** Questions arise about work on installation and maintenance by subcontractors after main contracts have been agreed. We must audit the skills that people have to ascertain whether they are sufficiently up to date to allow efficient use of the money that has been made

available for the systems that you want to be installed.

**Norman Kerr:** Absolutely. A percentage of all work on Scottish Government grant programmes is audited. In particular, every gas installation job is audited by an external organisation that reports back to what used to be Communities Scotland. Figures from that quality control programme remained in the high 90s.

It would be interesting to see the evidence that you suggest exists. I am sure that the managing agent of any programme, especially a Government programme, will have in place procedures to ensure that contractors that fail to do work to the required standard and quality are removed from the programme and not given further work. The cases that you have encountered should be highlighted, as they do the industry no service whatever.

In some cases, a local contractor has not been found and we have parachuted in a contractor from another area. However, such contractors do not always remain in the area to carry out maintenance. That is one reason why we have suggested a regional approach, which would allow us to employ more local contractors, instead of having contractors service from the central belt areas that are a long distance away. Clearly defined standards for materials and workmanship are laid down both in the current grant programmes and by CERT suppliers; CERT schemes are also externally audited. To date, where a problem has been identified, steps have been taken to rectify it.

**Dr Blount:** One of the things to which the forum has committed itself in the immediate future is a fairly rigorous system of monitoring the delivery of the energy assistance package. Although we do not have an accurate answer to Rob Gibson's question now, we hope that, at the very least, if problems emerge in that regard there will be an early warning system to flag those up so that we can look with some urgency at how they can be addressed.

The package offers more flexibility and variety, so it will stretch the skills base a bit more than the central heating programme did. Therefore, it is particularly important to monitor it in the early stages to ensure that there are no skills gaps or problems of the kind that Rob Gibson's constituents have experienced, which I am sure people experienced with previous programmes. We need to get on top of that work as quickly as possible. We hope that our monitoring role will ensure that there is, at least, early warning.

**Rob Gibson:** I am concerned about using the figure of more than 90, because we can also say that 98 per cent of the country has good

broadband coverage, yet we know that the remaining 2 per cent covers a very large area of land with scattered communities. I am concerned that the overall percentage does not take into account the more remote and scattered communities that really require some extra work. Those are also the areas where local contractors are thin on the ground, which compounds all the other problems. I ask you to take that on board, and we will try to find some examples.

**Jean Morrison:** The issue that contractors in rural areas face in working under Government schemes is that such schemes take a one-size-fits-all approach. Contractors are paid X amount of money for each installation. In the central belt, a contractor could install a gas central heating system in a day. However, in a more rural area, a contractor cannot install an oil system in a day—it requires several different skills, which means that subcontractors must be brought in. It will cost more to install such a system in a rural area than it will cost to install a gas system in an urban area, yet, the contractor is asked to install it for the same price.

Any scheme—whether it is a CERT programme or a new energy assistance package—must take regional variations into account so that a household in Bettyhill, for example, can have an air-source heat pump installed. It might take a day for the installer to travel up there, a day for them to return and a couple of days for them to install it. Somebody else then has to commission it. Such issues have to be taken into account and looked at.

I think that there is a skills shortage—there is definitely a skills shortage in rural areas. Given the state of the economy just now, we can use that to our advantage and work with the colleges to ensure that we have the skilled workforce that we need. Dundee College is a good example, as it already offers a training course in the installation of solar water heating to upskill local plumbers. It also offers an air-source heat pump installation course to upskill workers. We must replicate those examples throughout the country.

**The Convener:** Dave Thompson will follow up on the issues relating to off-gas grid areas.

**Dave Thompson:** The whole off-grid issue is important for the Highlands and Islands. EAS estimates that 25 per cent of people in rural areas are not connected to gas. To deal with that, you recommend in your written submission the use of

“market transformation initiatives to make new technologies such as solar water heating, biomass and heat pumps more affordable”

The problem is the massive cost of oil and coal, which most people in rural areas have to use. The cost of coal is zooming up—it has increased by 33

per cent in the past year and by 81 per cent in the past five years, which is well above the rise in the retail price index.

In your written submission, you also state:

“current grant schemes are still not sufficient to stimulate demand for these technologies.”

Therefore, rural areas are missing out. You conclude:

“this problem should be addressed as a matter of urgency.”

How do you see that happening? What do we need to do to improve Government schemes and to get the Government to respond?

11:15

**Norman Kerr:** In our submission, we were referring to the Government schemes that we have now, but the energy assistance package that we are suggesting takes cognisance of the problem. That package offers newer technologies as an alternative to solid fuel and oil. It offers emerging technologies such as air-source heat pumps, which are still relatively new in this country but which are commonplace in countries such as Japan, Norway and Sweden. Much more efficient technologies must be introduced. An air-source heat pump, for example, will provide four units of heat for every unit of energy consumed.

One issue that we need to consider is whether the electricity supplies in the areas that you represent are sufficient. If we want to put seven or eight air-source heat pumps into a small village at the end of a line, the questions are whether the infrastructure exists and whether it can take an upgrade in the load. We have some thinking to do about that. However, the package that we have recommended is not just to do with heating; it tries to address the building's overall energy demand in the first place through internal and external insulation. If we do not consider how to reduce energy leakage from a building or improve the building's thermal efficiency, we may put an oversized heat pump into it, but if we can get the insulation properties right, a smaller and more cost-effective system could be put in.

**Dave Thompson:** Are you fairly confident that the new scheme that will come in in April will address those difficulties?

**Norman Kerr:** It may not address them on day one because, as we have heard, a full survey of people's homes will need to be undertaken and we will need to get the right measures for them. We are moving to a more bespoke package as opposed to taking a one-size-fits-all approach.

**Dr Blount:** I underline the fact that the Scottish fuel poverty forum thought that a more flexible,

bespoke package would be easier to adapt to hard-to-treat areas, particularly off-gas grid areas. It would probably be useful to flag up the reality at this stage. The costs per house, and the costs of taking X number of people out of fuel poverty, will be greater under such a package. We must be realistic about that. Doing the same thing in a number of relatively easy-to-treat houses will maximise the number of people who can quickly be taken out of fuel poverty for every X pounds that are spent, but the costs will be greater. We are talking about houses that must be treated if we are to meet the 2016 target. Indeed, we must start to treat those houses now. As Norrie Kerr hinted, it will not all happen by the end of April, but I hope that the package will start to take us significantly down the route that we want to go down and that we will be able to address needs that have not been met until now.

**Jean Morrison:** The home assistance package is targeted at owner-occupiers; there is nothing in it for social landlords. It would be fairly straightforward for the Scottish Government to consider the existing renewables programme. The household element of the Scottish community and householder renewables initiative, which targets owner-occupiers, could be considered. It provides a 30 per cent grant for the installation of up to two renewable measures in one property. The regulations should be reconsidered and the initiative should be opened up to social landlords. We may then find that social landlords are able to implement more renewable measures in their properties in off-gas grid areas.

**Lewis Macdonald:** That is an interesting point. How important are renewable energy generation opportunities to addressing such issues? Is enough being done to enable microgeneration or the installation in homes of other sources of renewable heat or electricity? Do the other panel members agree with Jean Morrison that social landlords need access to initiatives so that they can have an impact on a large number of people? The community heat and power schemes that operate successfully in my constituency in Aberdeen are in high-rise buildings that the council owns. Those schemes have been cost effective because of the high level of occupation of those buildings and the number of houses that the schemes serve. Does something need to be done with renewable energy in general to make such schemes more widely available in other areas?

**Norman Kerr:** Jean Morrison mentioned the Scottish community and householder renewables initiative, which has been going for a number of years. It is not specifically a fuel poverty programme but a market transformation initiative that tries both to bring the technologies to individuals and to upskill people to fit them. The initiative is also about trying to bring down the cost



of the technology. Without a shadow of a doubt, we certainly need economies of scale to be able to fit devices at a reasonable cost. If the payback period for a device is 25 or 30 years, we need to ask whether that is the right thing to fit in a home.

We also need to look carefully at whatever research is available on the extent to which products are as effective as manufacturers claim. For example, recent British Wind Energy Association research into micro wind turbines found that many of those turbines were fitted in the wrong location. They were fitted mainly in inner city areas, where their ability to generate large amounts of electricity is constrained by the surroundings. We need to do a lot more work on that.

On Jean Morrison's comment that the initiative should be opened up to local authorities, others will confirm that local authorities are already undertaking such work through their own capital works programmes. I know that Fife Council has fitted a significant number of solar thermal systems over the past three or four years. A lot could be done with microgeneration, but we need to realise that many of the technologies are not new as they have already been tried and tested in other European countries. We just need to be able to make them fit with the Scottish climate and with the way that we structure our housing.

**Jim Paterson:** The ScottishPower Green Energy Trust allocates funds to many pilot schemes to trial new technologies. Norrie Kerr is spot on. I agree with him that although the technology is okay, we need to look at its application, which is being researched all the time.

It would greatly help suppliers if the amount of carbon credits that the regulator gives for new technologies was considered. Ultimately, we will run out of cavity walls to insulate—that is a fact—but the carbon credits and costs that are associated with cavity-wall insulation currently far outweigh the carbon credits and costs for new technologies. Although many suppliers such as Scottish Power trial new technologies, weighting at the moment is very much given to carbon reduction. That forces suppliers to concentrate on the more cost-effective measures such as cavity-wall insulation.

**Gavin Brown:** I want to pick up on Marilyn Livingstone's point about prepayment meters. Of course, the committee can read Ofgem's probe into the matter, but I think that it is important that we look at the primary data to reach our own conclusions. Jim Paterson need not give a definite answer today, but perhaps he could think about providing us with information in black and white on the standing charges and costs of standard tariffs in comparison with those of prepayment meters so that we can reach our own view on the primary

data. I suspect that issues of commercial sensitivity might arise—we might also want similar information from other suppliers—but could such information be provided to the committee?

**Jim Paterson:** Absolutely. All our tariffs are published, so I would be delighted to provide the information to the committee.

**Gavin Brown:** Perhaps the committee can invite all the energy suppliers to provide such information so that we can see in black and white whether the anecdotal evidence that we get from constituents is correct. It would be hugely helpful to get that information from the power companies.

**Lewis Macdonald:** Reference has been made to the Ofgem price probe and to Ofgem regulations that affect the delivery of CERT programmes. In the panel's view, will the price probe allow a restructuring of electricity and gas prices in a way that better protects people in fuel poverty? In your view, is Ofgem's remit the most appropriate for the new set of challenges that the industry faces? I am thinking particularly about the issue that has been raised in our inquiry of Ofgem's remit being focused on keeping down prices and not on, for example, promoting renewables. Would you be concerned about any change in Ofgem's remit, or do you think that it is compatible with addressing those two issues simultaneously?

**Norman Kerr:** I am sure that Jim Paterson will have a view on the Ofgem price probe. From our point of view, Ofgem was set up to promote competition in a deregulated market. Ofgem's success was to be measured in the context of its ensuring that customers had access to a wide range of suppliers and were able to switch their supplier efficiently. In terms of its social outlook, it has taken on work with suppliers on social spend and so on. If we want Ofgem's remit to change, that will require a change in the primary legislation under which it was constituted. Ofgem has been going since 1994 with basically the same remit. We believe that it is worth revisiting its remit to see whether it is still fit for purpose, particularly given the shape of the market today.

**Lewis Macdonald:** Is there anything in particular in the remit that no longer reflects the market conditions?

**Norman Kerr:** Ofgem's current remit is to do with access to cheap fuel and enabling people to switch supplier, whereas the current market issues are about supporting fuel-poor households and promoting renewables and bringing them to the market. Those issues are not within Ofgem's current remit, so we believe that there are gaps.

**Jim Paterson:** We work closely with the regulator in all those areas, and we sit on various policy working groups, which I think have covered

every aspect of fuel poverty. As Norrie Kerr said, we announced a big increase in fuel poverty spend over the next three years on the back of the work that we did with Ofgem. The industry as a whole announced more than £200 million in new spend on social activities; £39 million was announced by Scottish Power

We are aware that the current CERT scheme will end in 2011. The view is that there will still be enough cavity walls left in the UK to take one more scheme—probably another three-year scheme. That scheme will address the hard-to-heat and hard-to-treat properties. There is no question but that, right across the industry, that will pose a challenge in relation to new technology and smart metering. We will also have to think about how to address the issue of the decreasing number of cavity walls as we go forward.

**Dr Blount:** Ofgem sits as an observer on the Scottish fuel poverty forum—I think that it is an observer on other groups throughout the UK. As part of our working together with the other bodies in the UK, we are keen to open up a dialogue with Ofgem. It is particularly concerned about customers who are vulnerable to fuel poverty, and it recognises that the market does not always work in the interests of that group of customers. That would be the subject of our dialogue. Personally, I think that the forum would be slightly nervous of diluting Ofgem's concern at the moment; indeed, we want to strengthen it. However, that approach might not be compatible with other interests. We must consider how the issues can be addressed together.

**Rob Gibson:** I would like to explore Ofgem's remit slightly further. Norman Kerr suggested that a different remit might require primary legislation. Enabling the development of energy service companies to help finance energy efficiency in businesses and households is an area that encapsulates what we are trying to achieve today. Does Graham Blount have a sense that the regulator, through its membership of the forum, is getting the message that that change must take place? Have you lobbied directly for such a change?

11:30

**Dr Blount:** We are happy that Ofgem is part of the forum; I have a real sense that it is listening. However, we have made some specific recommendations to Ofgem that we have yet to explore through a different kind of dialogue. I go into that dialogue feeling positive about it.

**Rob Gibson:** How soon do you expect that dialogue to take place? Will it happen in the next few months? Are we likely to be able to benefit from knowledge of it in our inquiry?

**Dr Blount:** I am confident that a large part of it will take place before the summer. I can be no more precise than that.

**Rob Gibson:** That is helpful.

On wider reserved policy matters, have any members of the panel had a positive debate with the UK Government on its thinking on ways in which carbon emissions can be reduced through, for example, smart metering, data sharing and social tariffs?

**Norman Kerr:** It is part of Energy Action Scotland's remit not just to talk to members of the Scottish Parliament but to highlight areas in which powers are still reserved. We have had cross-party discussions and briefings at Westminster on how we would like smart metering to work. Next month there will be a smart metering exhibition in the Scottish Parliament; I am sure that the committee will want to take the opportunity to view that and to quiz the folks who are running it. When responding to consultations by Ofgem and the Department for Business, Enterprise and Regulatory Reform, Energy Action Scotland will always put forward the view of fuel-poor households in Scotland. We make the UK Government aware of our concerns on a regular basis.

**Rob Gibson:** So it is an on-going business. We heard something about smart metering when we visited Scottish Power in Kirkintilloch. Will it be possible to subsume the costs of smart metering in electricity bills generally, to help people in the fuel-poor categories? Smart metering requires a fairly stable household, and it must enable people to assess, to a degree, what can be changed; it relies on a sophisticated new set of activities. However, it would measure energy saving, which is part of Ofgem's remit, and it would meet people's need to get energy more efficiently.

**Jim Paterson:** Indeed. As you can imagine, rolling out a smart metering programme in the UK would have a huge capital cost. Every household in the UK would get a smart meter, which, in the case of those customers who are connected to the main grid, would probably be a combined electricity and gas meter. When dealing with customers in fuel poverty, behavioural change is the biggest single element on which we would work—we would give customers information to enable them to budget. There is already evidence of behavioural change in the key meter population. As Jean Morrison said, customers who are in charge of their budget and understand the debt situation prefer to budget on a weekly basis. The same criteria would apply to smart meters and are in the mix in the conversation about them.

**Rob Gibson:** We need to have some idea of what a smart metering programme would cost and

of the industrial capacity that is available to turn out the equipment that would be required. Can you help us on that issue?

**Jim Paterson:** I can, but not right now, as I do not have the relevant data with me. We have been working with Ofgem on trials and putting the proposal together. I can furnish the committee with that information.

**Norman Kerr:** We need to recognise that smart metering will not happen overnight; we are talking about a 10-year roll-out. We have to make it clear that the installation of a smart meter will not in itself change behaviour or make a home more energy efficient. Smart meters allow customers to become more aware of their energy usage and changes to their tariffs. Meters can be set to enable two-way monitoring of energy use between the supplier and the consumer.

Our concern, which we also expressed with regard to clip-on meters, is that, if the consumer uses the meter only to monitor energy usage and then self disconnects or rations fuel because they are worried about cost, we will achieve an impact that no one—the energy companies in particular—wants to have. We are talking not only about the roll-out of smart metering but about education, because a process of educating people will have to accompany any roll-out.

From the Scottish Government microrenewables trial, we know that not only has the technology to do what it says on the tin but people have to be able to understand it and make it work. That is an important point, which relates to smart metering, too. When people have a smart meter installed in their home, they need to understand what it does and how they can interact with that technology.

**Dr Blount:** I return to the earlier discussion on the definition of fuel poverty. If we define fuel poverty in terms of a notional appropriate spend to keep a house reasonably warm, smart metering will have no impact whatever on that. Smart metering will help people in fuel poverty—and those who are not fuel poor—to manage more effectively what they spend on energy. It will make a significant difference to people's lives, but it will not take people out of fuel poverty. I want to underline the point.

**Jean Morrison:** If used correctly, smart metering can help people out of fuel poverty. Smart meters can be used to show people how much it costs to heat their home. As I said earlier, it is not unusual to visit someone and find them sitting beside a two-bar electric fire when they have a full gas central heating system. We ask them to use the two-bar fire for a week and then to run the central heating in the next week. In addition to measuring cost, we give them a temperature card on which to monitor room

temperature. One-to-one advice needs to be given to help people use smart meters in that way. Those who install smart meters will need training if they are to deal with the social aspects around the use of smart meters.

**The Convener:** Christopher Harvie wants to raise issues on building standards and the Climate Change (Scotland) Bill.

**Christopher Harvie (Mid Scotland and Fife) (SNP):** I have some general points. You will probably have seen the "Historic Overview of the Energy Market in Scotland" table at the back of the Scottish Parliament information centre briefing paper on energy prices. I did not notice any reference in it to the time when central heating installations first became practicable. Those who have lived in Scotland as long as I have will realise that central heating was virtually unknown in this country before the 1970s, whereas it had been fairly standard practice in homes in Europe for some time before then. Anyone whose home had storage block radiators—as mine did and as, indeed, did all the homes that I can remember until the end of the 1970s—will realise just how recent an occurrence are the gas central heating systems that we now have.

The rise of central heating systems coincides with the sort of development that we historians like to ferret out. In this case, it is the tremendous rise in the number of households in Scotland. That happened between the publication of the first and fourth editions of my history of 20<sup>th</sup> century Scotland, "No Gods and Precious Few Heroes", which I hope everyone has read—I say that sincerely, as an understanding of history is crucial to a broader understanding of the social framework in which we operate, including the changes of our time.

In 1981, there were 1,600,000 households in Scotland. By the time that my book had run to its fourth edition, the number had risen to about 2,500,000. In other words, there had been a revolution—a dramatic rise in the number of household units. Much of the increase is in households at risk. Not only have we seen a rise in the number of elderly, we have seen a rise in the number of people who live rather chaotic lives. If a country has a drugs problem that is three times greater than the European average, that will be reflected in how money is allocated—money will be allocated to people who live on the margins.

I am disappointed that the SPICe briefing contains no statistical material about the nature of households or the relationship of that to central heating and conventional heating. Right up until the middle of the 1980s, many people in prosperous working-class areas of Scotland had no central heating because they were miners or

were connected with the mining industry and got a great lorry-load of coal tipped outside their houses every week, which fuelled strong conventional heating systems.

If we look at how we utilise heating, we find that Britain's statistics on carbon-efficient housing are fairly frightening. On average, the new housing that we build reaches, with some difficulty, grade C of the European Union's categorisation of efficient housing, whereas most of the new houses in continental Europe reach grade B fairly easily. That means that a considerable amount of heat loss is built into the houses that we are putting up even now.

If we add to that the statistic that came up in debate two days ago, that rainfall in Scotland, particularly the north of Scotland, has gone up by 70 per cent over the past century, we get some notion of the historical, familial and other problems that are contributing to an enduring crisis. From the evidence that I have heard this morning, I am not satisfied that the structures of building, supply and utilisation that one sees on the continent, or the more efficient forms of housing management, whereby an elderly widow who lived in a difficult-to-heat four-bedroom house that had been a family house could be accommodated in a smaller and much more efficient house, are being replicated here.

Do you think that social planning and social statistics on households, available housing stock and the allocation of the one to the other will help to solve fuel poverty, or will they make it more difficult to find a solution?

**The Convener:** That was a fairly broad set of questions.

**Norman Kerr:** Your question covered many issues. It is undoubtedly the case that Scottish building standards have not matched the building standards of our European counterparts. We still have much to learn in that regard. However, building standards are now reviewed regularly, and it would be fair to say that homes that are built under the current legislation are at least 25 per cent more efficient than those that were built four or five years ago. When it comes to overall thermal efficiency, we are making progress with building standards. One of your parliamentary colleagues, Sarah Boyack, is trying to steer through a member's bill that would involve microrenewable technology being fitted on all new-build properties so that a proportion of a building's total energy use would come from microrenewables. Problems with new build are being addressed.

However, you made a point about our existing homes. The problems of fuel poverty tend to be associated not with people who live in new homes

but with people who live in homes that were built pre-1919, in the late 1930s or in the 1960s. Dr Brenda Boardman from the University of Oxford—if I have got that wrong and she is from the University of Cambridge, she will kill me—has suggested that we will still have 80 per cent of the homes that we have now in 2050.

The challenge is to address the energy needs of existing buildings. Building standards do not apply retrospectively, which is why we are having to invest so much energy in retrofitting programmes. We hope that the programmes that we are bringing forward will go some way towards bringing the older stock up to the level of the new stock.

11:45

On the social aspects, I know that some local authorities have reconsidered their letting policy and issues such as to whom they should let a four-bedroom house. Some of them struggle with demand, so that is not always possible. However, some local authorities, as part of an affordable warmth strategy, are considering what type of people they are putting into what type of house. It is not just a matter of a house having a high energy rating. If a single person on a low income is placed there, it will always be difficult for them to heat that house to the appropriate standard.

The occupancy of homes is therefore a fourth element, to which social housing providers in particular are turning their attention through affordability strategies. However, I cannot give you any examples of excellence in such strategies, as RSLs also have to deal with other, political issues when they are letting homes in areas where there is a lot of pressure on homes for rent.

**Dr Blount:** I confess to being slightly disoriented by the mention of a book that is called "No Gods". Nevertheless, I agree on the historical perspective. I also agree with Christopher Harvie and Norrie Kerr about the importance for tackling fuel poverty in the long term of driving up building standards and tying that in with renewables, which we cannot ignore.

On social patterns, providing options for people who, by an objective standard, might be inappropriately housed seems to be a useful direction in which to go. However, it may be beyond the remit of the Scottish fuel poverty forum to help to get us there. As the convener of the forum, I certainly would not want to tell people that the solution to their fuel poverty is moving house.

**Jean Morrison:** In discussing fuel poverty, we have talked in detail about housing and the opportunities to increase the energy efficiency of houses. However, in the case of a large family home, when the children have left and only one or

two people are still living in that home, it is difficult to tell them that their best option is to move. In that context, the recently introduced energy performance certificate will provide a helpful educational tool.

When people move into a house, whether it is owner-occupied or a rented property, they get a certificate that is based on a standard occupancy. It is important that people realise that. The standard occupancy of a four-bedroom house is probably six or seven people. It is a matter of looking at the total income for that property—how much income is coming into it—and then working out 10 per cent. The chances are that if the house is full, it will be affordable to heat. Once people start to leave and the income for the property drops, it will be less affordable. It is about education. The bottom line is that, to help people out of fuel poverty, we need an advice programme to provide that education on a one-to-one basis.

In Scotland, we are experiencing shorter summers and longer winters. In addition, it costs 20 per cent more to heat a house in Aberdeen than it does in Glasgow, and it costs 10 per cent more to heat a house in Glasgow than it does in Bristol. The cost varies throughout the country because there are temperature variations. Norman Kerr has mentioned Braemar. Aberdeen and Alford are only 29 miles apart, but the difference in temperature can be astronomical. We have already experienced temperatures of  $-12^{\circ}$  and  $-13^{\circ}$ , and we are not really into winter as yet. All those factors need to be taken into account. We need to consider the climate conditions, and we must ensure that the heating systems that are installed can deal with those temperatures and below.

**Christopher Harvie:** I have one tiny supplementary point. If we are thinking in terms of renewable energy, that means thinking almost totally in terms of electricity—the stuff that is going to come off the North Sea, wind farms and so on. In a sense, that will mean having to reinvent types of primitive central heating, such as storage blocks, if we are not going to go for the passive, totally insulated, house in future. There is a gap at the moment, and a lapse in the oil price, but most people realise that by 2020 we will probably have the \$200 barrel again. We have to consider what we have got when it comes to central heating—we need to think about how it operates and how things will develop in future. We will have to adapt to a more-or-less electrical world.

**Jean Morrison:** It is also a matter of considering where our resources are now. Scotland has a massive resource in its forestry. We should consider biomass, and biomass district heating systems in particular. We should be thinking about that for new build, and we should be encouraging

district heating systems, which are not reliant on the gas network. In Aberdeen, we have already shown how high-rise flats can be connected to a combined heat and power system. People in those two-bedroom and three-bedroom flats are paying £7.50 a week. That is affordable on benefit, and that is what we should be aiming for.

**The Convener:** I return to where we started, on the issue of meeting the fuel poverty target by 2016. You may be aware that negotiations are probably going on elsewhere in this building—I was going to say heated negotiations, but perhaps I should not use that word in this context—on whether £100 million should be added to the annual budget for warm zones. If we are going to meet the fuel poverty target by 2016, should the Greens accept anything less than £100 million a year?

**Ms Wendy Alexander (Paisley North) (Lab):** May I ask the same question in a slightly less provocative way?

**The Convener:** Not until I have had an answer.

**Ms Alexander:** Some people are concerned about whether there are capacity constraints that make investing £100 million impossible in the short term. Others feel that the only deficiency lies in political will and, perhaps, in finance. An expert view on the speed with which we could scale things up would be welcome. If the financial constraint is set to one side, do we have the capacity to scale up to £100 million of expenditure a year?

**Norman Kerr:** The current budget is £54 million a year, and we believe that there is an underutilisation in some sectors of the industry. There is certainly a need for some additional skills in other parts of it, for example in the newer technologies. If £54 million a year is the current investment and Energy Action Scotland's calculation of what is necessary is £170 million a year over 10 years—not all of which must come from Government—I suggest that there is a gap somewhere in the middle. How the money is found is a matter for you ladies and gentlemen—it is for you to come up with the answers. I could not possibly comment on whether the Greens should be successful.

**Jean Morrison:** We should learn from our history lessons. In 1985, when SCARF started, there was a UK-wide programme for getting people back into work. There were more unemployed people then than there are now, but unemployment is rising across the UK, and that will be the case in Scotland much more over the next couple of months.

We should be using the skills that people have and we should be retraining people and getting them back into community projects and the social

sector to carry out the work. We should be able to build up a skilled workforce. Many people in the skilled workforce that is carrying out insulation work came through such community schemes 20-odd years ago. If we take such an approach, we can create sustainable employment, reduce fuel poverty and tackle climate change—we need to start taking an holistic view. We need to base community projects in areas where there is a need. We can work with the Construction Industry Training Board to ensure that we get the skills.

**Dr Blount:** Targeting fuel poverty is as important as the headline figure of spending is, as we have said more than once. The forum thinks that there is huge potential in area-based warm zone-type approaches. We passionately believe that areas that are particularly vulnerable to fuel poverty should be prioritised. We know where the appropriate areas are—identifying them is not rocket science. Areas that are vulnerable to fuel poverty might not offer the easiest pickings in relation to carbon savings, but we hope that if there is extra spend, it will be used to bring together the two agendas by targeting such areas.

**Rob Gibson:** There is a problem to do with getting the right skills mix in place to deliver the £170 million investment programme that Energy Action Scotland talked about. What will it cost to put in place college courses that can produce the personnel who can deliver programmes? Jean Morrison is right to say that people should be being trained, but we have not explored in detail how we do that.

**Jean Morrison:** Our experience with Dundee warm zone provides a good example of what I was talking about—this is another history lesson. We set up a training centre in Claverhouse, which took on unemployed people and put them through a gas installation training programme. That was done in association with National Grid. We do not have to reinvent the wheel and we should stop thinking about pilot projects; we need to consider what has been successful in the past and get similar projects up and running.

**Norman Kerr:** Industry will respond only to signals. If the signal from Government is that £54 million will be invested each year for the next three, four or five years, industry will cope with that. However, industry also needs forward signals about the need to skill up. If Government is not prepared to give such signals, industry cannot be expected to respond.

We also need to give clear signals about the technologies that we want industry to support, as the fuel poverty forum has tried to do when it has made recommendations. I am talking about air-source heat pumps, internal insulation and external cladding. There is a fledgling industry in that regard in many aspects, but a number of

people could rise to the challenge and skill up relatively quickly, by which I mean within the next nine months or year.

**Marilyn Livingstone:** I chair the cross-party group in the Scottish Parliament on construction, which I think would say that Government must send a message to Skills Development Scotland that programmes will be funded. We must ensure that there are enough modern apprenticeships and top-up courses for people who want to transfer skills. Courses must be funded. I agree that there must be signals from industry, but there must also be signals from Government.

**Ms Alexander:** I think that we are all in favour of the provision of additional resources and a move from a demand-led system to one in which much more effort is made to stimulate supply. Some £40 million of the current £54 million package was drawn from the central heating programme. I understand that the fuel poverty lobby had to consider how best to use funds in that envelope of £54 million.

I have certainly come across anxiety that although pensioners who are aged between 60 and 79 and who do not receive the pension credit are currently eligible for a replacement heating system—although that is not prioritised—they will cease to be eligible under the new energy assistance package that will be implemented in March. Are you concerned about that? If additional resources are made available, should the move from deprioritisation to ineligibility be revisited? Many people who are aged between 60 and 79 and who do not receive the pension credit might have systems that are beyond repair.

12:00

**Jean Morrison:** My biggest fear is about that client group. That is not just an age issue; it relates to the ability to pay and affordability. Most funding for the current central heating programme has not gone to people who are in fuel poverty. Over-60s who are in fuel poverty, who need a heating system and who cannot afford to install one should have a system provided.

**Norman Kerr:** The difficulty that has been described is that not all the people who have received systems could be classed as fuel poor. Other groups have made strong representations to the Government and to the fuel poverty forum about fuel poverty that is not being addressed. Lone-parent families with children who are under five, families with a restricted income and families with children who are under 16 and who have a disability all have a claim to be fuel poor. If we say that we need something that shows that someone is fuel poor, the question is what the proxy for being fuel poor is. Being aged between 60 and 79

does not automatically make somebody fuel poor, whereas the pension credit involves an element of poverty. Tried-and-tested ways exist of establishing whether someone is in need.

Demand still outstrips supply. With £40 million, we had a six or nine-month waiting list. If that £40 million were made available on day one, I am sure that the industry would respond in three months. However, the programme lasts a year, so the jobs must be done only at a rate that sustains the funding for a year. It would be terrible to have no funding left and no work for the industry after six months. The work has been evened out over the year. If we increased the work significantly, I suggest that the industry would cope with that and that waiting times might fall significantly.

**Dr Blount:** The changed targeting of the programme is obviously a function of limited resources. As Jean Morrison said, we have evidence that although the central heating programme did all sorts of useful things, it did not effectively target people who are in fuel poverty. As time wore on, those people were less targeted.

The new package is better targeted and will use the available resources more effectively. That certainly does not mean that we are not concerned about people who used to be entitled and no longer will be, but that is a function of bringing other people into the programme without a vast amount of extra money being made available.

As I said, targeting under the new package will be better. However, we retain a concern, which is why further investment is definitely needed.

**The Convener:** I thank the panel members for giving evidence this morning, which has only just turned into the afternoon. The session was helpful and has provided much useful information that will help us in preparing our report. If you would like to provide other information in writing, please feel free to do so—that will be taken into account.

I remind members that at our next meeting, we will take evidence on chapter 3 of part 5 of the Climate Change (Scotland) Bill at stage 1. We will focus on the energy efficiency action plan, renewable heat initiatives and energy standards in buildings. I hope that I will not have a cold by then.

*Meeting closed at 12:05.*





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