

**DECC REVIEW OF THE HYDRO
BENEFIT REPLACEMENT
SCHEME & COMMON TARIFF
OBLIGATION**



12 February 2016

Introduction

1. Citizens Advice Scotland (CAS), its 61 member bureaux, consumer helpline and Extra Help Unit form Scotland's largest independent advice network. The Consumer Futures division represents the interests of consumers in essential regulated markets including energy, post and, in Scotland, water.
2. CAS welcomes the opportunity to input into the review process into the Hydro Benefit Replacement Scheme ('HBRS') and Common Tariff Obligation ('CTO')¹, and the opportunity to comment on the introduction of a new subsidy structure to pay for upgrades to the power network in Shetland. This submission is non-confidential and may be published on your website.
3. Overall we are supportive of the policy objectives of the HBRS and CTO government measures which are in place to ensure consumers in the North of Scotland do not bear an unreasonable burden of electricity distribution costs. We additionally support the continuation of a subsidy structure to pay for upgrades to the power network in Shetland and the proposal to undertake this in a manner which will not place undue burden onto energy bills for consumers in the north of Scotland.
4. CAS however disagrees with the current policy of meeting the costs of critical national energy infrastructure through a levy on bill payers.

Do you agree that the policy objectives of the Hydro Benefit Replacement Scheme and Common Tariff Obligation – which are focused on ensuring that consumers in the North of Scotland do not bear an unreasonable burden of electricity distribution costs – remain valid?

5. Recent Ofgem analysis highlights that even after the effect of the existing HBRS support mechanism consumers in North Scotland pay the second highest distribution charges.² It is worth noting however that these comparisons rely on dual fuel consumption levels at GB average levels and so do not account for the higher energy consumption in northern regions. Those consumers in North Scotland who use electricity as their main source of heating will also see significantly higher exposure to electricity network charges.
6. Fuel poverty levels are particularly acute in the north of Scotland. The most recent local authority level estimates (2012-2014) from the Scottish House Condition Survey showed that in the Highland local authority area, for example:

¹ <http://tinyurl.com/hjytlwu>

² 'Regional differences in network charges,' Ofgem, 23 October 2015. <http://tinyurl.com/hqj5qp9>

- 55% of households were living in fuel poverty, compared with 35% of all Scottish households
 - 23% of households were living extreme fuel poverty, compared with 9.5% of all Scottish households
7. We therefore support the retention of the HBRS. The North Scotland region may benefit from the lowest per unit gas network charges, however given that in regions such as the Highland local authority area 60% of households live off the mains gas grid, compared with 16% of all Scottish households³, the majority of consumers do not benefit from these lower costs. Without the HBRS more households in the North Scotland region would likely be placed in fuel poverty.
 8. We are also supportive of the continuation of the CTO. The statutory definition of vulnerable consumers includes those households living in remote and rural areas. While no specific figures are presented in the consultation, the additional costs rural users might face if the CTO was discontinued are likely to be significant and rural communities residing off the mains gas grid are likely to already face higher fuel costs as a result of the heating fuel utilised.

Do you agree that the assistance amount provided by the Hydro Benefit Replacement Scheme is appropriate, when overall electricity network charges are considered, or should it be either decreased or increased? Please give reasons and provide evidence to support your answer.

9. In terms of the value of the HBRS, North Scotland consumers still pay the second highest distribution charges after this support mechanism is enacted. Given the higher energy consumption levels, lower energy efficiency of properties, higher proportion of off-gas consumers, colder climate and higher instances of fuel poverty in this region, we would welcome a review of the support mechanism that considers the HBRS mechanism in tandem with the unavoidable additional costs associated with residing in this region, to determine how much higher actual costs are likely to be for households and whether greater support from the HBRS could partially level some of these additional costs.
10. Whilst we acknowledge that no other options are presented, we find that a bill levy funded HBRS is a regressive approach which places a disproportionate burden on those with the lowest incomes and takes no account of their ability to pay. Lower income consumers spend a larger portion of their household income on energy, and a fixed cost added to the bill for an essential service places a further burden on those already struggling to pay. We urge DECC to look again at this practice, and consider meeting these costs through general taxation, a more transparent and equitable way of funding energy distribution costs and infrastructure projects. When considering any future price support schemes, we encourage alternative forms of funding in

³ See, for example, Figure 1. 'Special Feature: NEED analysis,' DECC, December 2013. <http://tinyurl.com/j4gemfr>

place of bill levies, and further consideration of how to target support to those who are vulnerable. This may allow for a deeper level of support to be given to those who require it, and to ensure that the more able to pay shoulder a greater proportion of the costs.

Do you have any evidence to show that the savings resulting from the Hydro Benefit Replacement Scheme are not being passed on fully by suppliers to end-consumers? If so, would the introduction of a licence obligation on suppliers to pass on the savings be an effective way of addressing this?

11. CAS would welcome the introduction of a licence obligation on suppliers to pass on the savings resulting from the HBRS scheme to end consumers, to ensure that this scheme is transparent and resulting in the maximum financial benefit to consumers. If this is not actioned we would welcome evidence to highlight that these savings are being effectively passed on.

Do you agree that the Hydro Benefit Replacement Scheme provides the best way of delivering revised funding arrangements for the Shetland cross-subsidy? If not, what alternative mechanism(s) could be used?

12. In the absence of a shift in policy (detailed in paragraph 10), CAS supports the spreading of the cross-subsidy costs across GB. While it is true that this will lead to a very marginal increase in bills for all GB consumers, it will avoid a much more substantial hike in prices for those on Shetland and throughout the north of Scotland, an area already disproportionately affected by fuel poverty.

Do you agree that the specific arrangements proposed in this consultation document for delivery of the revised funding arrangements for the Shetland cross-subsidy through the Hydro Benefit Replacement Scheme are effective? If not, what changes or additions should be made?

13. Whilst we support the spreading of the cross-subsidy costs across GB, like our sister organisation Citizens Advice England and Wales we would call for an assessment of the additional costs that would result from funding the Shetland upgrade. Such information is required to assess the effectiveness of the arrangements.

Yours sincerely,



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