

ENERGY MARKET INVESTIGATION

COMPETITION AND MARKETS AUTHORITY (CMA)

SUPPLEMENTARY SUBMISSION IN RESPONSE TO THE CMA'S 'ENERGY MARKET INVESTIGATION – PROVISIONAL DECISION ON REMEDIES', PUBLISHED 17 MARCH 2016

BACKGROUND

- 1 OFGEM's interest in the electricity markets is driven by overarching policy goals of reducing emissions, ensuring security of supply and improving the affordability of energy prices. The operation of the markets has particular geographic impacts and, for the Outer Hebrides, the most significant impact is excessive, and rising, levels of Fuel Poverty – according to the Scottish Government's Scottish House Condition Survey (2012-14), 62% of island households are Fuel Poor, compared to a Scottish average of 35%. A more representative survey, carried out locally, indicates a Fuel Poverty rate of 71%.
- 2 Based on the premise that, on average, 10% of pensioners in the UK live in Fuel Poverty, BBC's Panorama programme recently revealed "the shocking death toll caused by Britain's cold home scandal". In the Outer Hebrides, official figures reveal that 75% of pensioners live in Fuel Poverty. This is totally unacceptable to the Comhairle and the CMA's investigation was viewed as an excellent opportunity to address these shocking statistics, brought about largely by lack of competition and locational disbenefits inherent in the electricity market in the North of Scotland.

PREPAYMENT METERS

- 3 The Comhairle welcomes the Transitional Price Control proposed by the CMA for customers on Prepayment Meters, outlined at page 210 of the report, and running from 2016 to 2020. 65% of social housing homes in the Outer Hebrides are on Prepayment Meters so a high proportion of consumers already susceptible to Fuel Poverty are having their situation exacerbated by the Prepayment premium.
- 4 The Comhairle further welcomes the CMA's provision to allow new suppliers to compete for Prepayment Meter customers and to encourage switching even where debt constraints exist.

SMART METERS

- 5 The Comhairle is concerned that this Transitional Price Control is time limited to 2020 on the basis that SMETS2 Smart Meters will take over from Prepayment Meters by 2020. The Data and Communications Company (DCC), headend for Smart Meter rollout throughout the UK, was mandated to be in place and operational for domestic consumers by August 2013. It is now March 2016 and the DCC is still not in place but the deadline of 100% coverage by Smart Meters by 2020 remains in place. Having spoken to the dominant electricity supplier for the North of Scotland (SSE), the Comhairle is certain that full coverage will not be achieved by 2020 – SSE are actively pushing for a revision of this target to 80% by 2020 and 100% by 2025.

- 6 Even once “full coverage” of SMETS2 technology is achieved by Arqiva in its Northern Region (maybe as late as 2025), this will represent 99.5% of dwellings, leaving 44,000 homes without Smart Meter capability. Many of these homes will be in the rural parts of the Scottish Islands where Fuel Poverty is already a chronic and life threatening reality.
- 7 As referenced in page 201 of the report, the current SMETS1 end date is 1 August 2017. Given that a SMETS1 Smart Meter will be the only smart metering option available to many consumers in the Outer Hebrides for the next five to ten years, or maybe forever, and that SMETS1 can communicate with the data headend through ubiquitous GMS (mobile phone) networks, as opposed to Arqiva’s new radio mast network, CMA Remedies should support the continued deployment of SMETS1 up to 1 August 2017 in ‘hard to reach’ SMETS2 areas. Remedies should also contain an instruction for wider incorporation of multi-tariff capability in SMETS1 meters to enable them to directly replace Total Heating Total Control two band meter sets (40% of social housing dwellings in the Outer Hebrides are on the restrictive SSE Total Heating Total Control tariff with constraints on switching due to tariff specific meter sets).
- 8 We appreciate that SMETS1 Smart Meters restrict competition to an extent because they will only communicate with the Data Centre which is shared by the customer’s electricity supplier. However, we feel that a switch away from a Prepayment Meter or a restricted two band Meter like Total Heating Total Control to ANY Smart Meter provider will realise substantial savings to the island consumer and is something worth pursuing.

LOCATIONAL COST OF ELECTRICITY DISTRIBUTION

- 9 The Comhairle is disappointed that the CMA has made no effort to address the structural locational cost levied on consumers in the North of Scotland – an average of 2p per unit or 15% on bills which does not have to be paid by consumers in the rest of Scotland and the UK. This additional charge is unfair and inequitable. On the one hand, hard pressed consumers in the Outer Hebrides who might never see a Smart Meter are expected to pay a bill levy which supports the £12bn cost of Smart Meter rollout while the wider GB consumer is not required to support the crippling cost of distributing electricity to the remote parts of the country. Instead, this cost rests solely with the North of Scotland consumer, living in an area where Fuel Poverty affects almost four out of five households and where household incomes are suppressed through lack of economic opportunity.
- 10 It is difficult to understand how this situation can be allowed to continue by the CMA and OFGEM when the March 2015 UK Government Budget Statement read, *“The Government will consult on reducing electricity distribution costs for consumers in the North of Scotland, to ensure that they pay no more for electricity distribution than consumers in the next most expensive region”*.
- 11 The figures around this additional distribution cost are opaque but experience with the redistribution of the Hydro Benefit Replacement Scheme (HRBS) is informative. This scheme, which seeks to socialise the cost of supporting domestic diesel generation, costs £57m and benefits the 700,000 households in the North of Scotland area. The scheme produces a reduction in North of Scotland electricity bills in the order of £41 per annum but, when smeared across the GB consumer base, costs the individual bill payer just 0.02p per kWh.

- 12 While figures are opaque, it is considered that a similar socialisation of this inequitable locational charge across the UK would cost the GB consumer hundredths of a penny per kWh as opposed to £200 per annum (average) added to bills in the UK's worst area of Fuel Poverty.
- 13 The CMA's decision to reassign the cost of Transmission losses from 45% generator / 55% consumer to 100% generator (page 49 onwards of the report) is welcome insofar as it modestly benefits the electricity consumer in the North of Scotland (circa £64 per annum bill reduction across Scotland and North England).
- 14 However, the CMA should note the effects of this short term, cash saving measure. As the UK moves away from Fossil Fuel generation close to centres of population, the emphasis will increasingly be on Renewable Energy generation (onshore wind, offshore wind, wave and tide). It is common sense to locate generating plant for these technologies in areas where the resource is strongest. Existing wind turbines in the Outer Hebrides are returning capacity factors of 50% and over while wind turbines closer to the main centres of demand in the south are returning capacity factors of around 20% or lower. This means that the Scottish Islands are well placed to access Europe's best wind and wave resource and can therefore contribute disproportionately to security of domestic energy supply in the UK and carbon reduction targets for Scotland, the UK and the EU. It would be short sighted to load transmission losses onto generators who are willing and able to deploy in these (remote) areas of best resource. Development in these areas is already marginal due to the prohibitive cost of Transmission Network Use of System charges to export product to market and the additional burden of transmission loss cost through distribution will represent a further, unwelcome disincentive to deployment in these areas with associated negative impacts on the national interest.

ALLOCATION OF CONTRACTS FOR DIFFERENCE

- 15 At page 85 onwards of the report, the CMA recommends that DECC carry out an Impact Assessment on the technology mixes within the various CfD Auction pots. The CMA should be aware that, in the Outer Hebrides alone, there is 555MW of renewable electricity generation 'shovel ready' (consented and contracted to Grid). However, because there is no Transmission connection to the National Grid, prospective developers are unable to export their product to market (on-island demand is only circa 29MW).
- 16 The prodigious Outer Hebrides renewable energy resource will only be accessed through the provision of a new £800m HVDC Transmission connection to Grid. Because the entire cost of this cable will be recovered from its users over cable lifetime, through prohibitive Transmission Network Use of System charges, the annual cost of exporting product from the Scottish Islands to market is already up to seven times higher than in the nearby North of Scotland mainland. For this reason, it is absolutely essential that 'Remote Island Wind', connected by innovative HVDC technology to the UK mainland, is recognised through the CfD Auction process as a valid 'emerging technology', more aligned with Offshore Wind than Onshore Wind due to the islands' effective status as offshore generating platforms connected to the UK Grid by HVDC cable. Without CfD support, there will be no 'Remote Island Wind' and no Radial Connector and the UK will forego the opportunity to access a renewable energy

resource which can significantly contribute to UK Security of Supply and Carbon Reduction targets in the national interest.

- 17 The Transmission Owner's reluctance to reinforce Grid connections to the Scottish Islands over the last ten years despite the demonstrable presence of sufficient generation demand may be regarded as a non-competitive market failure. If CMA interference is going to impact negatively on the Auction process, the case could be made for allocating CfD directly to 'Remote Island Wind' outwith the Auction process to ensure that the considerable island resource is accessed in the national interest.

GENERAL

- 18 From page 189, the CMA report talks about helping customers engage to exploit the benefits of competition but the physical barriers to switching to some tariffs in the North of Scotland should be recognised. For instance, the Total Heating Total Control customer (66% of social housing stock) is locked into a tariff specific SSE meter set with no option for a Smart Meter since SSE do not operate a multi-tariff SMETS1 meter. Also, the most attractive tariffs are usually Dual Fuel variants but, with no mains Gas outside the town centre of Stornoway, the bulk of island consumers are unable to switch to these tariffs. They remain on an electricity only tariff and must pay the 15% locational overcharge levied by the Distribution Operator (SSE) regardless of which company supplies their electricity.
- 19 While the Comhairle welcomes the proposed tariff cap on Prepayment Meters, we are disappointed that the idea of a Single Variable Tariff (SVT) cap was not pursued. Incumbent Brand Loyalty towards SSE (Scottish Hydro Electric), the dominant electricity supplier in the North of Scotland, coupled with weak customer response allows the supplier to price its product significantly higher than comparative tariffs elsewhere. For example, during 2015, SSE's THTC tariff was 9.84p per kWh for heat and 18.5p per kWh for other domestic use. This compares to SSE's Dual Fuel tariff in the main conurbations, priced at 4.2p per kWh for Gas and 14.86 per kWh for electricity.
- 20 Neither Total Heating Total Control nor Domestic 10 tariffs appear on price comparison websites. SSE's monopoly position, unique tariffs, incumbent brand loyalty and weak customer response all contribute to excessively high electricity prices in the Outer Hebrides. It is estimated that island consumers pay 26% more per kWh on average to heat their homes than the UK average and this situation is compounded by constant exposure to a cold, damp and windy climate. This is an unacceptable market impact in an area of low incomes, high climatic exposure and high cost of living. It is the Comhairle's view that the CMA's proposed Remedies will do little to deal with embedded anti-competitive effects in the North of Scotland electricity market. Distribution costs should be socialised nationally and every support should be given to 'Remote Island Wind' as a discrete, emerging technology.