SUBMISSION FROM CONSUMER FOCUS SCOTLAND

Summary

Consumer Focus Scotland welcomes both the Committee’s focus on renewable energy targets and on the opportunity to present our views on this increasingly important area. We work to ensure that consumers, especially those who are vulnerable or disadvantaged, have access to heat and to the electricity needed to maintain essential services at affordable prices.

We believe that there are, in effect, two energy policy debates in Scotland. The first debate is largely around the economic costs and benefits of growing the supply of renewable energy and the Scottish Government’s targets. The second discussion focuses on the impact on consumers of rising energy costs, and rising levels of fuel poverty. We believe that the Scottish Government should more closely integrate these two discussions, so that consumer interests and concerns are more consistently reflected in all targets - not least because the costs of renewable energy investments are part of the reason for bills rising, and that trend is expected to continue.

It is not within our remit to take a view on the technical aspects of the different sources of energy which are selected to deliver these aims. We are, however, able to contribute to the discussion by highlighting likely the implications of different choices on consumers, and this is the main focus of our submission.

Energy Prices and Impacts on Consumers

In 2001, average dual fuel, direct debit bills in Scotland were £518. Taking account of recent price changes, Consumer Focus estimates that the average GB annual dual fuel bill is now £1,258. We are currently undertaking research to update our information on consumers’ views of energy costs and their responses. Initial findings show clearly that many more consumers are reporting more difficulty paying for their energy, and also that many others are increasingly worried about the impacts of rising costs. We are now at the point where consumers’ concern about energy bills is greater than their concern about Council Tax bills, and this is consistent with Scottish Government data which shows that rates of fuel poverty have increased significantly, despite significant and welcome improvements in the energy efficiency of Scottish housing.

Impact of environmental and social charges on bills

Analysis by Ofgem shows that the wholesale cost of fuels, and associated transmission and distribution costs, remain by far the largest components of consumers bills. Increasingly, however, levies to fund environmental and social commitments account for a growing proportion of bills:

3 Consumer Focus Scotland, forthcoming; fieldwork by Social Market Research, 2012.
5 Household Energy Bills Explained, Ofgem, January 2011
• Large scale renewable energy developments are currently subsidised through the Renewables Obligation (RO) levy on electricity bills; Feed in Tariffs (FiTs) provides a similar mechanism for household and community level generators. Ofgem estimates that the RO currently accounts for around £21 of annual electricity bills, and that FiTs payments account for a further £1.
• The largest single element of levies is CERT, the Carbon Emissions Reduction Target. This is the largest single source of funding for energy efficiency work in Great Britain at present, and is thought to account for around £48 each year, split between gas and electricity bills.
• The Warm Home Discount (WHD), is a cross-subsidy which reduces the bills of target groups of elderly and disadvantaged consumers, and which adds around £3 to bills annually.
• Finally, the EU Emissions Trading Scheme (EU-ETS) is thought to add around £20 to bills each year. Consumer Focus has recently co-founded a campaign with the aim of recycling ETS funds towards energy efficiency.

In total, these levies – although limited individually – account for around £100 each year for average dual fuel households. In addition, there are further hidden costs associated with a move towards renewable energy, most notably through the increases in the element of bills associated with transmission. The costs of extending the electricity grid to connect renewable energy developments in rural areas – the Beauly–Denny line being a high profile example - are ultimately paid by consumers. The ‘postage stamp’ approach to transmission charging proposed by the Scottish Government would add noticeably to this element of consumers bills. Figures provided by Ofgem as part of Project TransmiT suggest that GB consumers would bear additional annual costs of £11 per household. However, as a result of the charging structure, the impact on bills would be most significant in northern Scotland, where fuel poverty is already higher than elsewhere.

It is also clear that the cost of developing low carbon electricity will increase consumer prices more significantly in the longer term, with the RO element peaking at an annual cost of £95 by 2020. DECC suggests that the impact on total bills, however, will be significantly less, as their modelling assumes take up of energy efficiency measures which will offset rising costs.

This is a critical point. Energy costs and fuel poverty will both continue to rise if energy efficiency measures are not made available in ways which are attractive and affordable for consumers. At the same time, energy efficiency helps meet the Scottish Government’s policy aims by reducing emissions and fuel poverty directly, by releasing consumer spending for more productive use. In addition, by reducing absolute electricity demand, energy efficiency helps achieve existing renewable energy targets, as these targets are expressed in terms of Scottish electricity demand, rather than absolute levels of power generation.

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7 Project TransmiT consultation document, pp43-44
Energy Security and Climate Change

At the same time, we support fully the need to address the longer term issues of both energy security and reducing climate change emissions. Consumer Focus has undertaken work which discusses the negative impacts of climate change on consumers. There is also emerging evidence from forthcoming GB-wide Consumer Focus work that most consumers also recognise the importance of investing in both renewable energy and in energy efficiency, although their opinions are much more divided on who should pay for these investments, and which groups should benefit from subsidised energy efficiency measures.

In addition, modelling by Ofgem as part of Project Discovery suggests that even greater rises in bills, and consequent increases in fuel poverty, would be associated with continued reliance on fossil fuels, if wholesale prices of those fuels continue to increase.

Conclusions

We believe that, while renewable energy clearly has a strong role in helping to improve energy security and reduce climate change emissions, the debate at present needs to be better balanced to reflect consumers’ interests. Renewable energy policy and consumer / fuel poverty energy policies need to be brought together, so that more emphasis is placed on the eventual outcomes of affordable energy for consumers, energy security and reduced climate change emissions. There should be explicit consideration of energy efficiency alongside investment in renewable energy when deciding how to meet these aims most effectively, and taking account of the impacts on consumers of different approaches.

While the actions supported by levies are largely in the long term interest of consumers, we believe it would be more equitable for them to be supported through general taxation. This is because energy costs typically form a much higher proportion of household spending for low income consumers than for those on higher incomes. In addition, much of the focus on development of renewable energy in Scotland comes from the economic development opportunities; it would be more appropriate to support those opportunities through Scottish Government economic development funding than through charges for consumers through higher banding of Renewable Obligations.

More immediately, governments and energy companies should clearly explain what they are paying for themselves, so consumers can better understand the context in which their contributions are made. If this is approach is not taken, there is a risk of a backlash from consumers which could ultimately affect delivery of the Scottish Government’s wider objectives.

Although Scottish Government figures show that there have been significant improvements in the average energy efficiency of homes in Scotland, it is clear that

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10 Accent consultants, for Consumer Focus, are currently exploring consumer understanding of environmental and social levies on bills, and their views on who should bear the majority of costs.
11 http://www.ofgem.gov.uk/Markets/WhiMkts/Discovery/Pages/ProjectDiscovery.aspx
12 http://www.scotland.gov.uk/Topics/Statistics/SHCS
these improvements have largely resulted from improved standards in new build housing, alongside basic insulation measures in social housing and, to some extent, private sector housing. As a result, the key challenge now is to improve the energy efficiency of older houses for which basic measures are not appropriate. Many of these houses are off the mains gas grid, and so also require more renewable heating systems as part of the solution to rising energy costs. Greater take up of renewable heat also helps contribute to renewable energy targets, again emphasising the links between the two debates.

As one contribution to the aim of greater integration across energy policy, Consumer Focus Scotland will shortly publish a discussion paper which seeks to help connect the two aspects of energy policy. The paper focuses on the use of Community Benefit Funds (CBFs) associated with renewable energy developments. The sums available through CBFs – which ultimately come from all electricity consumers - are increasing in parallel with the expansion of renewable energy. We believe that an open debate is needed to ensure that there is transparency around the way money is spent, and that benefits accrue more widely than only to communities in the immediate vicinity of windfarms. We also consider that there is potential for CBF money to be used to improve access to and take-up of energy efficiency measures, especially in rural areas where more expensive measures are needed and where fuel poverty is currently highest.

We would welcome the opportunity to discuss our response in detail with the Committee. Below, we present some responses to some of the specific questions raised in the consultation.

Are the 2020 renewables targets (for electricity and heat) achievable? If not, why not?

CFS cannot comment on whether targets are technically achievable or not. However, assuming that appropriate technologies exist and can be deployed, we believe that the extent to which targets are met in practice will still depend on political will and financial support. As outlined above, we believe that the debate should also consider other ways of meeting climate change emission targets, including a stronger focus on energy efficiency. Such an approach would also help reduce consumers costs and address fuel poverty directly.

Will increase in demand from electric heat and transport be offset by efficiencies elsewhere?

There is evidence that take-up of energy efficiency is influenced by the cost of energy. Given continuing pressure on prices, and assuming appropriate energy efficiency services are available, we would expect to see an increase in demand for both insulation and for renewable heat, especially in rural areas, given the higher heating costs for older detached properties without access to mains gas. We believe that such changes would also be likely to result in a net reduction climate change emissions.

Has the Scottish Government made any estimation of the overall costs of achieving the targets, and identified which parties will bear them?
At present, the electricity market operates at GB level. Costs and levies which fund renewable energy developments and infrastructure in Scotland are paid by all consumers, including those in England and Wales as well as Scotland. As discussed in the introductory section above, we believe that it would be more equitable for investments to be supported through general taxation rather than levies on consumers’ bills.

There is also a wider question of likely energy price trends in the absence of the development of low carbon fuels. The price rises announced in summer 2011 by all of the big six energy companies were driven very largely by rising wholesale costs of gas; the significantly smaller price falls announced early in 2012 were, conversely, the result of reductions in wholesale gas costs. If such price variations continue, the impact on consumers will be very significant, as gas is used as a fuel in thermal electricity generation as well as used directly for heating.

**Challenges**

(a) **Technology**

*Is the technology to meet these targets available and affordable? If not, what needs to be done?*

*Are electricity generating or heat producing technologies compatible with the need for security of energy supplies?*

*Are our universities and research institutes fully geared up to the need for technological development, innovation and commercialisation?*

We are not able to comment on the technological aspects of large scale electricity generation. However, we have carried out two research projects on consumer issues around microgeneration which may be relevant.

The first of these, *Power at Home*, highlighted the three main barriers facing consumers in this area:

- understanding & awareness
- access to trusted installers
- cost

In addition, the study noted that there was considerable experience among RSLs of the use of renewable heat, but also suggested that experience had not been explored in detail. Accordingly, we have recently published *21st century heating in rural homes* which looks at the experience of RSLs and tenants using renewable heating systems. The research found that these systems can and do provide affordable warmth, but also that support for tenants is critical to help them understand how to get the best from the new systems. As alternative heating in rural areas depends largely on fuels derived from oil, renewable heating is certainly compatible with security of supply aims.

Our work also relates to the third question above, in relation to research capacity. Our experience shows clearly and consistently that consumer engagement and support is critical to all work in the domestic energy sector. We would therefore suggest that social science research capacity should be considered alongside technical research wherever appropriate.
(b) Supply chain and infrastructure

Is the supply chain in Scotland in place to meet the targets?

We can only comment on one aspect of the supply chain question, above, which again relates to consumer behaviour. Our research on the use of renewable heating shows very clearly that the discussion around supply chain needs to consider support for consumers using new systems effectively, especially where the systems installed are significantly different from those previously used.

(d) Access to finance

What will the impacts be on consumers and their bills?

This is discussed above.

Consumer Focus Scotland
6 March 2012