Scottish Parliament Economy Energy and Tourism Committee Inquiry into the Scottish Government’s Renewable Energy Targets: Consumer Focus Scotland Supplementary Evidence

Policy Statement
June 2011
About Consumer Focus Scotland

Consumer Focus Scotland is the independent consumer champion for Scotland. We are rooted in over 30 years of work promoting the interests of consumers, particularly those who experience disadvantage in society.

Part of Consumer Focus, our structure reflects the devolved nature of the UK. Consumer Focus Scotland works on issues that affect consumers in Scotland, while at the same time feeding into and drawing on work done at a GB, UK and European level.

We work to secure a fair deal for consumers in different aspects of their lives by promoting fairer markets, greater value for money, improved customer service and more responsive public services. We represent consumers of all kinds: tenants, householders, patients, parents, energy users, solicitors’ clients, postal service users or shoppers.

We aim to influence change and shape policy to reflect the needs of consumers. We do this in an informed way based on the evidence we gather through research and our unique knowledge of consumer issues.
Consumer Focus Scotland Supplementary Evidence

Introduction
Our evidence previously submitted to the Committee on March 7th 2012\(^1\) provided an overview of consumer issues in relation to the development of renewable energy in Scotland. In advance of our appearance before the Committee, this supplementary evidence provides further details on some of these issues.

1. Rising Energy Prices, Consumers and Fuel Poverty
Rising energy prices are very clearly a concern for consumers. CFS will shortly publish a report updating research we first carried out in 2010, which examined consumers’ attitudes towards energy bills. The table below shows the extent to which consumers’ ability to pay for energy and concern about energy costs have changed as a result of stagnant incomes and increases in many other living costs.

<table>
<thead>
<tr>
<th>Ability to pay household energy bill</th>
<th>2010</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>No problem in paying</td>
<td>54%</td>
<td>21%</td>
</tr>
<tr>
<td>Energy bills are more of a concern than a few years ago</td>
<td>24%</td>
<td>43%</td>
</tr>
<tr>
<td>Always or sometimes struggle to pay</td>
<td>22%</td>
<td>37%</td>
</tr>
</tbody>
</table>

The proportions both of consumers having difficulty paying and of those who are ‘now more concerned’ about energy costs have both increased significantly. The latter group now outnumbers those who reported that they do not have a problem paying energy bills.

These figures are consistent with Scottish Government fuel poverty statistics. Current Scottish Government estimates are that some 35% of households in Scotland are in fuel poverty\(^2\); the comparative figure for 2010 was 26%. Fuel poverty is increasing because the speed of price rises is outstripping improvements made in the energy efficiency of Scottish housing.

2. Drivers of rising prices
Ofgem’s data show that the main driver of domestic energy price rises is the increase in the wholesale price of gas. Gas prices have been driven up by rising global demand. Rising wholesale gas prices most obviously affect consumers who use gas for heating, but also feed through to electricity costs, as just under 50% of GB electricity is generated by burning gas\(^3\).

\(^{2}\) http://www.scotland.gov.uk/Topics/Statistics/SHCS/shcscadatadevelopment/UFPES2011
It is also important to note that a significant minority of Scottish households use heating oil or LPG as a domestic fuel. Both prices and price volatility of these fuels have also risen sharply in recent years, and fuel poverty is higher among households without access to mains gas as a result. These rises have been purely driven by market forces; there are no Government levies on either heating oil or LPG, and VAT is charged, as for gas and electricity, at 5% on these fuels.

Prediction of wholesale energy prices is notoriously difficult, given that prices can be affected by:

- demand at global level, including one-off events, such as the Japanese earthquake of 2011, and short term variations such as a cold winter
- supply constraints, regardless of whether these occur for physical or political reasons

However, it is clear that, as north sea natural gas reserves fall, energy companies and therefore consumers across GB will be increasingly exposed to variations in international markets. There have been recent indications, for example from Centrica\(^4\), that there is further increasing pressure on wholesale gas prices in the short term; conversely, large scale exploitation of shale gas might reduce gas prices over time. Sharp increases in gas costs could ultimately lead to increased use of electrically powered heating, if the balance between different types of heating change.

Against this background, investment in a basket of different types of electricity generation is sensible, and we explore consumer attitudes to this below.

However, as we discussed in our earlier submission, a range of direct social and environmental levies also add costs to electricity bills, and to a lesser extent, to gas bills. In addition to these direct levies, there are hidden costs, such as potential increases in transmission costs, associated with the development of infrastructure to better connect renewable energy generators to the grid. The Scottish Government’s policy of socialising transmission costs so that all generators pay the same to access the grid, for example, would increase bills for all consumers, but would have a particular impact in the north of Scotland.

The issue that consumers face is that, currently, they are paying both for increasing fossil fuel prices, and for investment in low carbon alternatives. There is also a question about the extent to which consumers should subsidise the development of new technologies, rather than their deployment. The balance of investment between consumers, companies and government relates to this, and is discussed below.

3. Consumers Views of Investment in Renewable Energy

Consumer Focus is currently working on a suite of GB-wide research projects designed to explore consumer attitudes to levies designed to achieve social and environmental goals. There are, not surprisingly, variations in attitudes between different groups of consumers which we are in the process of exploring. However, it is possible to identify some initial headline findings:

- For all consumers, attitudes to investment are coloured by their day to day experience of energy markets and energy companies. Consumers are, as

noted above, concerned both about absolute levels of energy bills and about price volatility.

- In line with wider public attitude surveys, our deliberative research shows that most consumers recognise and accept the need to reduce climate change emissions from domestic energy use. However, there is widespread recognition that our growing dependence on imported energy, with associated political and economic risks, is affecting energy prices for consumers. As a result, consumers’ attitudes to low carbon investment are driven to a greater extent by the degree to which these investments increase energy security, and will therefore ultimately benefit consumers, rather than concerns about climate change.

- Consumers’ willingness to pay for social and environmental outcomes through levies on their bills is influenced by a combination of the above background factors, and varies between groups.

- Our deliberative research assessed willingness to pay for investments both before and after groups of consumers, from a range of backgrounds, were given an opportunity to explore the issues in some detail.

- At the start of the process, a significant minority of consumers were willing to pay for investments. As a result of discussions, attitudes changed in favour of renewables, with a majority of consumers willing to contribute towards investments; but, their willingness to pay is very much conditional upon:
  - investment costs being fairly spread among Government and industry, not just consumers. Perhaps not surprisingly, consumers are not comfortable about bills rising to pay for investments at the same time as companies announce increasing profits;
  - the benefits of investments being clear and clearly targeted at those in greatest need (for example, subsidies on bills for older people, or for people with disabilities)

It is also important to note that very few consumers are aware that levies are already in place, despite this information already being provided on bills by some energy companies.

A key point is that levies which raise bills but from which consumers derive no benefit, and the effects of which they cannot evade, are understandably seen as very unfair. EU-Emissions Trading Scheme costs, which are expected to reach £129 per household per year by 2030 are particularly unwelcome for this reason.

4. The Need to Focus on Energy Efficiency

We have consistently argued that there is a need to more closely link energy generation policy and energy efficiency policy in Scotland.

The Scottish Government often quotes\(^5\) DECC modelling\(^6\) which shows that, overall, there will be a fall of £95 by 2020 in domestic consumer energy bills as a result of the cumulative impact of environmental and social policies. This

\(^5\) Most recently, for example, http://www.scotland.gov.uk/News/Releases/2012/05/greensavesmoney14052012

\(^6\) Estimated impacts of energy and climate change policies on energy prices and bills, UK Department of Energy and Climate Change, 2011
reduction is a comparison with the counterfactual scenario for that year (that is, what would have happened had there been no energy using product, energy efficiency or renewables policy since 2000). It does not mean there will be a decline in costs compared to today’s bills.

Two points follow from this.

Firstly, there is an expectation, as explored in the DECC paper, that bills will continue to rise. Further rises will have associated impacts on consumers and likely impacts on attitudes.

Secondly, there is a clear distinction between energy prices – the unit costs of gas or electricity - and energy bills, which depend on total energy use. DECC’s modelling shows that:

*Compared to the counterfactual scenario in which climate change and energy policies do not have an impact on energy bills, on average, domestic energy bills will be 1% higher in 2020 and non-domestic energy bills, for medium-sized consumers, will be 26% higher as a result of climate change and energy policies.* (para 3)

This is because:

*The impact of climate change and energy policies on energy prices is higher than the impact on bills (18% and 33% on gas and electricity prices respectively for domestic consumers and 24% and 43% respectively, for medium-sized non-domestic consumers). The impact on bills is lower as the Government has in place a range of policies to improve energy efficiency, which helps households and businesses reduce energy consumption, lessening the overall bill impact.* (para 4)

This last point is critical. Savings will only be delivered if energy efficiency measures are offered and delivered to consumers in ways which meet their needs and aspirations, and at affordable cost.

While the Scottish Government’s continuing commitment to delivery of publicly-funded energy efficiency measures – in contrast with the situation in England - is welcome, the scale of the work required remains considerably greater than the resource available. There is a clear need to identify further funds which could be used to deliver energy efficiency work at scale, and in ways which make available measures suitable for off gas and hard to treat houses as well as for those for which conventional measures are suitable. We would make two suggestions towards this:

- Firstly, Consumer Focus was a founder member of the Energy Bill Revolution campaign, which aims to recycle money raised from consumers under the ETS towards energy efficiency, and therefore reduce bills. An average of £4bn each year will be raised through the ETS; recycling that money towards energy efficiency measures would represent a huge increase in the resources available to deliver energy efficiency measures when compared to the current CERT or proposed ECO programmes. We are also funding follow-on work looking at the macro-economic benefits of such an energy efficiency programme in terms of GDP and employment growth.
Secondly, we have recently published *Reaping the Benefits of Renewables*[^7]. Among other recommendations, the report highlights the potential for community benefit funds to be used to a greater extent to deliver energy efficiency programmes at community or local authority level.

**Conclusions**

Consumers today are experiencing rising and volatile energy costs. Although domestic energy prices are driven largely by wholesale prices, a combination of environmental and social levies and infrastructure investment needs are also adding to bills. This is taking place at a time when incomes are flat and other household costs are also rising. Consequently, rising prices are resulting in rising rates of fuel poverty among low income and vulnerable consumers, as well as greater concern about bills among consumers more widely.

Despite this, a majority of consumers are willing to contribute towards social and environmental levies to some extent when they have had an opportunity to debate the issues – but this is not a debate in which many consumers are at present involved. In addition, consumers need to be confident that charges will deliver benefits they believe are justified, well targeted and proportionate, with investment costs split equitably and transparently between consumers, government and energy companies. Leadership is needed to frame this debate, and we believe that this is a role for the Scottish Government.

Following from this, we consider that the Scottish Government should be much clearer about the costs and benefits of its renewable energy policies - for example, where investment decisions are influenced strongly by economic development considerations, it is more appropriate for devolved economic development budgets to support those investments than for consumers to do so through bills.

There is also a need to better integrate and balance the emphasis of energy policy so that much greater emphasis is given to energy efficiency measures. The relative fall in consumer bills predicted by DECC will not be delivered in the absence of significant investment in energy efficiency. In addition, investment in energy efficiency delivers multiple benefits by addressing fuel poverty and reducing climate change emissions directly, in addition to releasing consumer spending at local level by reducing household costs.

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