

ENERGY MARKET INVESTIGATION – RESPONSE BY LOCHALSH & SKYE HOUSING ASSOCIATION

The CMA provisional findings totally fail to address the FOUR key issues of concern raised by household consumers in the Highlands and Islands of Scotland. In terms of distortion of competition and market failure the following need redress.

[1] The introduction of measures to modify the underlying grid distribution costs which results in SSE consumers paying 2 pence more per kw/hour in the highlands and islands – over and above the majority of the rest of the UK - has **not** yet been addressed by the CMA. The Report has not discussed or commented on the concerns of Highland and Island affordable warmth groups, or reacted to SSE's suggestion of equalising these grid costs across the UK to end this discriminatory policy which has a negative impact on consumer pricing of between 0.3p and 2.1p per kw hour depending on the provider.

[2] We also contend that the present amelioration policy of the Hydro Benefit Replacement Scheme and Common Tariff obligation does not remedy the regional penalty of higher distribution charges. The calculation of the formula to define this benefit does not appear to take into account the higher real world consumption levels of electricity in our area. We suggest as a possible remedy that CMA, DECC and Ofgem review the purpose, value and success of this policy in delivering fair pricing in the Highlands & Islands. The three year review is due in 2016 and we suggest that it is accelerated.

[3] The Scottish Hydro THTC tariff is mentioned only in passing isolation yet in effect is a monopoly product capped at extraordinary high prices. Whilst a proliferation of standard tariffs exist now in the Highlands and Islands where electricity costs around 10 to 12 pence per kw/hour at all times – a THTC customer is tied into buying heat at a reasonable 10p per kw/hr but has to pay an exorbitant 19p per kw/hour for lighting, cooking and the use of appliances. There are no real world switching options and users are trapped in an unfair tariff. This uncompetitive storage heating tariff compares extremely badly with competitive Economy 7 (E7) tariffs, and is clearly and evidently an example of distorted competition.

[4] Economy 10 (E10) products in the Highlands and Islands are equally challenging – there is only limited competition in the rates which average around 12p and 18p for low and high rate times respectively.

All E10 consumers would be better to be freed of the burden of time bound cheap rate restrictions and instead be free to move to a 10p at all times standard tariff, but there are no price comparison websites or industry facilitators or protocols for this process.

The net result for Highland and Island E10 and THTC consumers is that they are trapped under a single supplier (SSE) with tariffs averaging around 16p per kw/hr when there are alternative 10p per kw/hr standard tariffs available in the region, that are however practically very challenging if not impossible to achieve. As your report identifies, the situation in terms of lack of choice is exacerbated for prepayment customers on specialist electric only tariffs. This is a clear AEC yet achieves scant regard in the CMA report.

The electricity industry and its regulator are thus currently securing monopoly single provider provision for THTC and E10 products rather than facilitating effective switching to a cheaper rate.

It is the product of the Industry effectively facilitating the capping of domestic prices at up to 6p more per kw/hour than the rest of the UK which results in the region having the Highest Fuel Poverty levels in the UK. An electrically heated household consuming 10,000 kw hours per year could save around £500 annually if they could achieve normal 10p per kw/hour pricing.

Given it is the policy of DECC and Ofgem to encourage a working competitive market we strongly urge that this area is declared an AEC and is given a high priority in terms of securing adequate remedy. It is important that the CMA breaches the silence that the current reports give to the matter.

The report is preoccupied in blaming aspects of “weak customer response” as the principle factor which allows suppliers a cart blanche in pricing. This is an unfair inference when so many consumers in the Highlands and Islands have no ability to switch, yet strong desire to achieve normal non-discriminatory pricing.

We would like an effective investigation into the monopoly position of the Scottish Hydro THTC tariff. If no other suppliers are able to be visible to consumers and compete in this market then the “standard” rate for electricity on this tariff should be effectively controlled by regulation to be priced equivalent to other standard tariffs available in the region rather than just to SSE’s distortedly high prices. Currently there is no consumer protection for THTC users. This Housing Association alone has 202 households (32% of our stock) trapped on THTC and another 177 (28% of our stock) effectively trapped on E10. We challenge CMA and OFGEM staff to seek alternative pricing to that delivered by SSE? If you cannot find alternative providers then perhaps you too will be able to join us in concluding that there is market failure and a clear distortion of competition.

We believe that the THTC tariff which uses cheap off peak electricity to deliver heat to storage heaters is an effective delivery mechanism for Highland and Island homes that cannot access mains Gas, but the model is only effective when the supplier monopoly is removed and the non- heat element of the purchase is priced the same as other dual fuel tariffs in the UK.

Finally we would like the CMA and/or Ofgem to facilitate the introduction of switching websites which allow a consumer to make a ready speedy transfer from uncompetitive specialist electricity tariffs like E10 and THTC to competitive standard tariffs. If there is to be no effective competition in the E10 market then it should not be allowed to persist as it is blocking householders’ ability to choose cheaper standard tariffs.

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