

Scottish Rural Fuel Poverty Task Force
COST OF ENERGY/RESTRICTIVE PROVIDER ISSUE

1. Short Description of issue

There are higher energy costs in the Highlands & Islands and other rural areas in particular due to

- A lack of competition in the heating oil and LPG market and many communities with no access to the cheapest fuel – mains Gas, and consequently no dual fuel deals
- Higher unit rates for electricity due to higher grid distribution costs in the north of Scotland
- A reluctance from consumers to switch standard tariffs from the dominant high charging local supplier SSE
- An inability to switch and find alternative tariffs for specialist electric heating tariffs like E10 and Total Heat Total Control (THTC)
- The lack of choice in terms of finding lower prices due to having a prepayment meter
- Additional transportation costs burden to get fuels to remote communities
- Higher fuel consumption levels for traditional housing in exposed locations (*In Skye for example energy costs are up to a £1000 a year higher than Scottish averages due to this combination of high fuel costs and low energy efficiency of private sector buildings*)

2. Analysis of the root cause of the issue

The electricity cost issue centres on high network distribution costs, the lack of switching ability for specialist tariffs, and the lack of desire from consumers to switch away from the dominant local supplier. Heating Oil and LPG are simply uncompetitive fuels with insufficient suppliers to create an effective market. A recent OFT study suggested that a minimum of four suppliers was needed to effect competition in the heating oil market but there are less in many parts of Scotland. Where the heating oil market is competitive – like Northern Ireland – prices are considerable lower.

3. Evidence

Attached is a current analysis by LSHA of electricity and heating oil excess costs in the North of Scotland, and LSHA's response to the current CMA study into the energy market which highlights the concerns over electricity tariffs. The Western Isles Fuel Poverty Report of last year indicates the very high household energy bills of island consumers.

4. Possible Current solutions

- Ofgem stimulate effective competition in the specialist electric heating market and/or introduce price controls.

- Encourage consumers to abandon E10 tariffs and instead choose a competitive standard tariff (can save 6p a kw/hr)
- Review the Hydro Benefit Replacement Scheme to check its compensation levels are adequate to match real world consumption figures.
- Tackle the concerns of consumers who won't leave the Hydro (SSE) because they fear they won't be a priority for reconnection after a power cut.
- Update the OFT investigation into the Heating Oil market and introduce effective redress if market failure is confirmed.
- Seek at least 5p discount on heating oil and LPG equivalent to the current island road fuel discount applied to drivers in remote communities
- Facilitate the creation of more Oil and LPG buying clubs

5. Possible Future Solutions

- SMART METERING will theoretically allow more effective switching if the communication networks facilitate their install in remote communities
- Better metering for oil and LPG supplies may result in greater knowledge of consumption trends
- Consider using more electricity via local grids from local renewables.
- Investigate further the potential of further community heating schemes including waste to heat.

6. Resource Implications

- Lobbying of Ofgem and SSE
- Encouragement to OFT to update market assessment for heating oil and LPG.
- Better more accessible advice re switching and oil clubs

Appendices

Scottish Highlands & Islands Heating Oil and Electricity Surcharges
LSHA Response to Competition & Markets Authority's Energy Market
Investigation