



**Consumer Focus Scotland's response to SHETL
consultation for an incentive mechanism relating to
energy not supplied**

November 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.

Response to SHETL consultation for an incentive mechanism relating to energy not supplied

Consumer Focus Scotland's Response to the Consultation

Q1. What are your views on the incentive proposed by Ofgem?

A1. No comment

Q2. What are your views on the alternative approach we describe in this consultation?

A2. We welcome the fact that Scottish Hydro Electric Transmission is thinking in terms of consumers rather than simply focusing on the regulatory regime. Therefore, we welcome the principles where by:

- the incentive mechanism is designed so that consumers affected by being off supply are directly compensated and don't have to go through a complicated claim process
- it would offer a fairer system whereby SHETL customers (who are fed off a 132 volt transmission network) would benefit from the same financial compensation approach to those who receive their power from 132 volt distribution network in England and Wales under the Distribution Network Guaranteed Standards.
- it would mean that compensation for >6 hour outages went directly to the consumers affected by them (in the form of a direct payment), rather than to all consumers in the region (in the form of a reduction in network charges, which suppliers may or may not pass on). So the payment of compensation would appear to be better targeted under this kind of regime.
- companies would not be financially rewarded, by Ofgem, for delivering uninterrupted supply to customers as this should be something that they seek to deliver anyway.

Q3. Do you have a preference between the revenue reduction penalty mechanism suggested by Ofgem and the customer payment penalty mechanism suggested here?

A3. An incentive mechanism which is designed so that consumers affected by being off supply are compensated directly would appear to offer a greater level of redress than one where the compensation is socialised across all consumers. However, we would require further modelling of the costs involved under each system so that we can make a judgement of around the impact of both proposals on consumers' bills before we could comment in more detail.

However, under the revenue reduction penalty mechanism proposed by Ofgem every outage, no matter how short, has a financial consequence for transmission companies because it is based on the number of MWh not supplied. Every outage will feed into that MWh figure. If transmission companies can keep the number of MWh not supplied below the Ofgem target level, the transmission company is paid a bonus. If the number of MWh not supplied is above the number of MWh not supplied target, the transmission company pays a penalty. This means that there is an incentive for transmission companies to get

the lights back on quickly or to stop them going out in the first place. This in turn means that the chance of customers in the region facing disruption is likely to decrease.

Under the customer payment mechanism suggested by SHETL; transmission companies would not get any bonuses for keeping the lights on. The only circumstances in which it would pick up financial costs would be when energy was not supplied for more than six hours. The pie chart in your letter highlights that most transmission faults last less than three minutes. So in essence, customer payment penalty mechanism is asking for a regime which contains no material incentives for transmission companies to maintain a reliable network. This could increase the chances of consumers in its region facing interruptions.

Consumer Focus Scotland can see merit in both proposals. Therefore, a mechanism which means transmission companies are always incentivised to keep the lights on plus a requirement to compensate customers directly when outages exceed six hours would be in the consumer interest.

Q4. Do you have a preference as to whether the mechanism should mirror the approach taken in the Guaranteed Standards for the distribution network or have its own bespoke rules?

A4. It would seem fairer to treat all customers in the same way. Therefore, a system whereby SHETL customers (who are fed off a 132 volt transmission network) would benefit from the same financial compensation approach to those on 132 volt distribution network under the Distribution Network Guaranteed Standards in England and Wales would seem appropriate.

However, we would require further modelling of the costs involved so that we can make an informed judgement around the effect on consumers bills of both the mechanisms suggested by Ofgem and SHETL before we could comment on which would be preferential.

Q5. Is there anything else that we should take into account when we consider our future system reliability?

A5. No comment.

Consumer Focus Scotland
Royal Exchange House
100 Queen Street
Glasgow G1 3DN

Telephone 0141 226 5261
Facsimile 0141 221 9695

www.consumerfocus-scotland.org.uk

We can often make our publications available in Braille or large print, on audio tape or computer disk. Please contact us for details.