

Energy UK response to the Hydro Benefit Replacement Scheme and Common Tariff Obligation Consultation

4th September 2019

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HM Treasury.

Response

Energy UK welcomes the opportunity to respond to the Hydro Benefit Replacement Scheme and Common Tariff Obligation Consultation.

Energy UK agrees with the first two deliverables in the fact that the hydro benefit replacement scheme and common tariff obligation both remain valid and should continue to support the consumers in the North of Scotland, and that the flow of assistance for SHEPD is being done in the correct and most effective manner.

Energy UK acknowledges that the hydro benefit scheme remains an appropriate way to deliver the revised funding arrangements. However, with no indication of the costs of an interim energy solution (continued operation of Lerwick power station) being recovered through AAHDC, included in the publication from Ofgem '[decision on Shetland new Energy Solution](#)' in November 2017 or in the '[Extended interim Energy solution for Shetland](#)' in June 2018, a cost increase of £27 million which amounts to be almost a 45% increase was not expected. Energy UK agrees that the Shetland cross-subsidy funding may need to be increased in order to improve their security of supply. However, the time scale over which this change is implemented should be more reflective of supplier hedging methods. With the current time scales in place, suppliers would not be able to adjust fixed price contracts with their consumers and therefore would not be able to recover these added costs.

Should you have any questions regarding our response, please don't hesitate to get in touch.

Kind regards,

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