

# A review of the balance of Gas and Electricity Levies and the impact on Low Carbon and Renewable Heat Deployment

## 1. The need for this research

On behalf of the Scottish Government, ClimateXChange wishes to commission a desk-based evidence review to understand whether rebalancing of levies and charges between electricity and gas supplies might impact the deployment of low carbon and renewable heat in both domestic and non-domestic settings (but not including heat for industrial processes).

The strengthened climate change targets, including the need to reduce emissions by 75% by 2030, is likely to require a very rapid ramp-up in deployment rates of low carbon and renewable heating technologies.

We need to understand the current structure and balance of levies and charges on the supply of electricity and gas, and how this may have a contributory impact on the rate of deployment, and whether changes to the balance of levies across the respective fuels, could play a part in driving greater deployment.

Levies are covered by reserved UK legislation and currently provide funding for Scotland in the form of Warmer Homes Scotland and the Energy Company Obligation (ECO). Therefore this work does not suggest that overall levies should be reduced but rather to look at the balance and how a different balance may impact the attractiveness of low carbon heat options as a replacement for existing higher carbon technologies.

## 2. Project scope and aim

The aim of this research is to understand whether an increase in deployment of low carbon and renewable heat might be encouraged in the event of changes to the balance of levies on gas and electricity.

This research will provide a literature review to allow better understanding of levies and charges in the current system and the available routes for change.

The review should consider this across the range of likely available low carbon heating technologies (heat pumps, district heating, etc) and take account of the stock of domestic and non-domestic properties in Scotland.

This research should also consider, and be sensitive to, any wider impact that restructuring of levies may have. This could be on: energy bills for those currently in fuel poverty or on the borderline of fuel poverty; the possible stimulation of rebound effects; the potential for

increasing levels of electricity demand and related network impacts and the low carbon heat supply chain in Scotland or; funding availability for Scotland through existing schemes such as the ECO (as mentioned above). This list is not exhaustive and we would expect additional impacts that arise as part of this research to also be articulated.

We expect the research to:

- Review the structure of levies and their impact on electricity and gas prices. The review should consider both contemporary prices and forecasts (under current policy conditions, and with the UK proposal for the introduction of a Green Gas Levy).
- The review should also consider, and articulate, the value, and use, of current levies to Scotland.
- Conduct analysis of factors that lead to the current balance of levies across gas and electricity bills including, but not limited to (historical reasons for introduction, relevant legislation, licence conditions, commercial decisions, schemes supported by the levies.)
- Provide analysis of routes for achieving a different balance, and for each their relevant timescales and complexity. (i.e. is it primary legislation, Ofgem licence conditions, company discretion that sets the current balance?)
- Review the evidence on the role of relative gas and electricity pricing on consumer take-up of low carbon technologies (including in conjunction with other policy interventions), highlighting any evidence gaps.

Note: A second phase to this research may be commissioned during September/October 2020.

Phase 2, if commissioned, will consider and quantify the impacts that rebalancing of levies across gas and electricity will have on the deployment of low carbon and renewable heat, as well as wider impacts.

We will require the researchers contracted to undertake this work to work closely with those appointed to undertake Phase 2, should it proceed.

### 3. Audience

The work is commissioned on behalf of the Scottish Government, and of particular interest to the Heat Strategy Unit.

The results must be presented in a format and language that can be easily understood by readers without an academic background. Written outputs must be well presented and written in Plain English.

### 4. Methodology

Tenderers are invited to put forward proposals on how to best meet the research aims within the budget available. A full explanation of your chosen approach, including any limitations, should be provided.

## 5. Outputs

We expect the research to be presented in a short report. The report must be written in plain English, follow the CXC house style, and should comprise:

- a) an executive summary of no more than two pages, detailing the key findings, the aim of the project and the value to a policy audience; and
- b) a full report of the project, of no more than 25 pages to include:
  - i) Key findings
  - ii) Recommendations about key/outstanding priorities for further research and innovation activity/funding
  - iii) Annexed detailing the methodologies used and underlying assumptions
  - iv) References
  - v) A glossary if needed

This report will be utilised for future policy development and to inform any position the Scottish Government might take on how levies could be used to drive deployment.

The ownership of the research material including the final report and any data produced as a result of the research lies with ClimateXChange on behalf of Scottish Ministers. The research may be published on the ClimateXChange website, the date and format of which will be determined by the Scottish Government and ClimateXChange. One or more drafts are likely to be required before a final version is agreed.

## 6. Project governance

A small steering group will be established to support delivery of the project. It will include representatives from Scottish Government (Heat Strategy and Fuel Poverty Policy Officials), ClimateXChange, and the project team. External members will be considered depending on the methodology/approach.

The lead contact for ClimateXChange will be the CXC Project Manager, Ciara O'Connor, who will liaise with the contractor. Regular update calls will be scheduled fortnightly between the principal investigator and the CXC Project Manager to discuss progress and address any issues, escalating to steering group for consideration where necessary.

## 7. Project timetable

Milestone	Completed by
Project kick-off meeting, to agree <ul style="list-style-type: none"> <li>• Terms of reference</li> <li>• Scope</li> <li>• Wider considerations</li> </ul>	Week beginning 28 September 2020

<ul style="list-style-type: none"> <li>• Boundaries</li> <li>• timeframe</li> </ul>	
Report on progress (Principal investigator and CXC Project Manager)	Week beginning 19 October 2020
Presentation of draft findings to steering group	By 6 November
Submission of draft report	By 13 November
Submission of final report	By 4 December

## 8. Award criteria

Price 20%

Quality 80%

Quality Criteria	Descriptor	Weight
Understanding the research specification and the policy environment	The proposal should include an introduction which demonstrates a clear understanding of the research requirements. This should include an understanding of the policy environment and the supporting role of research; the cross-sectoral nature of the project; the need for this research; the research aim; and how the proposal will address this need.	20%
Research methodology	The proposal should demonstrate a high quality and workable research methodology (including how the evidence will be identified, reviewed and assessed) which will address the research objectives and produce the outputs in the timescales required.  It should explain the suitability, robustness and limitations of the proposed methodology.	20%
Project management and staff resource	The proposal should <ul style="list-style-type: none"> <li>• Include a clear project plan, that captures the key steps required to deliver the desired output within scope and to time; this should include reference – where relevant – to mechanisms for compliance with regulations (e.g. GDPR)</li> <li>• provide details of individual staff members who will work on this project and demonstrate how they will meet the project requirements, specifically: <ul style="list-style-type: none"> <li>- general research experience and expertise;</li> <li>- specific experience &amp; expertise in the evidence review topic;</li> <li>- experience and expertise in inter-disciplinary team-working</li> </ul> </li> <li>• provide a commitment that named staff members will be available to work on the contract if the bid is successful.</li> <li>• set out the management arrangements for the project.</li> </ul>	10%

Quality Criteria	Descriptor	Weight
Communication and report writing	The proposal should describe the approach to writing the report, which will be published on the ClimateXChange website. It should detail who will take lead responsibility for report-writing and overall report quality. It should provide examples of previously published literature or evidence reviews in which they have been involved.	10%
Quality control and assurance	The proposal should provide details of quality assurance procedures to demonstrate how the contract will be continuously delivered to a high standard. It should specifically address issues of quality control at different stages of the project, including evidence gathering, analysis and report writing. It should include a timetable for delivery of tasks, project milestones and allocation of staff and staff time against each task, covering the duration of the contract.	10%
Risk	The proposal should provide a risk assessment matrix detailing any risks identified in relation to the delivery of this contract, and proposed mitigation measures to minimise their probability and impact.	10%

## 9. Submitting a proposal

Please send a brief work plan (no more than six pages excluding CVs) responding to the award criteria above and with deadlines, CVs for the proposed delivery team, applicable day rates, relevant research experience, examples of previous work and the number of person days' work proposed.

You should highlight any potential conflicts of interest in your proposal.

Proposals need to be submitted to [lee.callaghan@ed.ac.uk](mailto:lee.callaghan@ed.ac.uk) and cc'd to [ciara.o'connor@ed.ac.uk](mailto:ciara.o'connor@ed.ac.uk) for evaluation by noon on Monday 21 September 2020. We expect to contact the successful bidder by 25 September 2020.

The costs of proposals for this project are expected to be in the range of £20-25,000 (incl. VAT). However, ClimateXChange would welcome proposals for less than this amount. We welcome consortium bids.

Depending on the quality of proposals received, CXC may chose not to appoint any contractor.

CXC Secretariat

2 September 2020