DEPARTMENT OF ENERGY AND CLIMATE CHANGE

Thank you for your letter regarding the Economy, Energy and Tourism Committee’s inquiry into the achievability of the Scottish Government’s renewables targets and for the opportunity to respond to the points raised. I welcome the work of the Committee and its detailed analysis, and was grateful for the opportunity to speak to the Committee last year. Although energy is a reserved matter managed by the Department of Energy and Climate Change, it will take close collaboration between Westminster, Holyrood and the other Devolved Administrations to achieve our shared vision. Scotland has excellent natural resources and, as part of the wider United Kingdom, is well placed to develop a thriving low-carbon economy. UK-wide incentives have unlocked huge renewable investment in Scottish renewables over recent years, and as we take forward reforms of the UK electricity market, I am confident this will continue. Alongside this support for low carbon generation, I am committed to ensuring the necessary network infrastructure is in place to carry increasing levels of green power to customers. So I am pleased that the billions being invested in our networks will strengthen Scottish generators' access to the wider GB market while helping to increase the overall efficiency of the system.

Cooperation between UK and Scottish Governments

We have a close working relationship with the Scottish Government across the full spectrum of energy matters. In particular, I very much welcome its support for electricity market reform (EMR) and the Energy Bill currently passing through the Westminster Parliament. The Energy Bill is designed to unlock up to £110 billion investment energy infrastructure across the UK. It will ensure we have a simpler, more accessible energy market, which is more attractive to investors whilst ensuring a better deal for consumers. I believe the reforms provide the most effective means to maximise renewables potential across the whole of the UK, including Scotland.

The Scottish Government, along with the other Devolved Administrations, has already played a valuable role in shaping our proposals and I am keen that this should continue. Their respective expertise and experience will help strengthen our approach and ensure success. Indeed, our commitment to collaborative working has been demonstrated by provisions included with the current Energy Bill. The Devolved Administrations are statutory consultees for the design and delivery of Contracts for Difference (CfDs), essential for enabling the new structure to work effectively across the UK and to support renewable generation in all regions. A Devolved Administrations Consultation Group has already been established to focus on the analysis that will underpin future CfD strike prices for renewables. These arrangements place the Devolved Administrations at the heart of the policy and delivery process. Ultimately, it is only by this kind of close working that we will maximise our renewables deployment and ensure a successful energy market.

Scottish Islands transmission charging

I have made it clear, along with Scottish Ministers, that the renewable energy potential of Scottish islands should be unlocked where such projects are competitive. The costs of developing transmission networks to the islands, and the question of how these costs should be shared, are vital issues which need to be addressed. The
Ofgem review of transmission charging (Project TransmiT) recommended changes to the transmission charging regime that will mean an intermittent generator will in future pay less than a baseload generator in the same location. Ofgem's conclusion was welcomed by both DECC and the Scottish Government. The detailed changes are now being developed through an industry working group under the Connection and Use of System Code (CUSC) which will make a series of recommendations to Ofgem on changes to the transmission charging regime. This CUSC Group is also considering how to include generators on the Scottish Islands in the transmission charging regime. In addition to this work I announced a steering group in October 2012 to advise on the barriers to faster development of Scottish Island renewables, of which one part is the cost of connection to the grid. The terms of reference were agreed with the Scottish Government and the project is making good progress, with a strong cooperative spirit not only between the UK and Scottish Governments but also local communities.

The Connect and Manage regime, and grid access issues

The timely connection to the grid of new generation projects is essential for meeting renewable energy targets and ensuring energy security. To speed up grid connections, DECC introduced the enduring Connect and Manage grid access regime in August 2010. The regime is delivering significant benefits, and I note the Committee's support for this approach. However, I share the Committee's view that a close eye needs to be kept on progress. Ofgem, as the independent regulator, and National Grid, as the Electricity Transmission System Operator, monitor grid access issues closely, and Ofgem provides an annual report to Ofgem on connection timescales.

Response to the Energy and Climate Change Committee report

The Government very much appreciated the pre-legislative scrutiny of the UK Energy Bill by the House of Commons Energy and Climate Change Committee last summer. Given the partial overlap of issues, you may be interested to see the Government's response to the House of Commons Committee report, which can be found online at the following address:


This document provides a detailed response to items raised in pre-legislative scrutiny, and changes made subsequently. The Government made some significant amendments to the EMR provisions of the Bill, addressing concerns over the operation of Contracts for Difference. These changes included a single counterparty to the CfD contract and a two stage registration and allocation process for CfD contracts, and are designed to allow more confidence in the energy market and give generators the early certainty they need over CfO allocation and price. The Government also made modifications to ensure it can make certain that independent generators have access to the market. These changes have been widely welcomed by industry - in particular the renewables and investor community - and we will continue to listen, ensuring our proposals deliver secure, low carbon and affordable electricity.

I should also note that, while DECC is ultimately responsible for UK energy policy, its
vision of a competitive, secure, sustainable energy supply is shared right across Government. In a transformation of this scale there will always be discussions between Departments on priorities, but as concrete examples of close, constructive, collaborative working across Whitehall I would point to the Energy Bill and recent agreement to a tripling in support for low-carbon generation, including renewables, between this Parliament and the next.

**Reducing Carbon Intensity and non-grid generation**

UK energy policy includes provisions for tackling decarbonisation through statutory carbon budgets and the EU Emission Trading System. Both of these frameworks cover power sector carbon emissions, including from thermal plants even where such electricity does not make it to the grid.

Once again I thank you for the opportunity to respond to your report. I look forward to continuing to work closely with the committee and the Scottish Government to help ensure the reforms in place will produce a thriving low-carbon future energy sector.