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Dear Murdo

**EET REPORT: PLUGGED-IN SWITCHED-ON CHARGED-UP: ENSURING
SCOTLAND'S ENERGY SECURITY**

Please find attached the DECC response to the specific questions raised for us in the recent report by your Committee on energy security.

Energy security is a key issue across GB and a priority for DECC, and your report makes a very useful contribution to this debate. As the report notes, DECC has engaged extensively with the Scottish Government on security of supply concerns and other energy matters and we will continue to do this in the future; particularly looking for areas where we can most usefully work together.

We will also be providing the Parliament with a more detailed update on energy security matters in April 2016.

Best wishes

ANDREA LEADSOM

UK Government Response to the Scottish Parliament Economy, Energy and Tourism Committee Report – “Plugged-in Switched-on Charged-up: Ensuring Scotland’s Energy Security”

SMART METERS– Para 145

145. Specifically on the subject of smart meters, a UK-wide initiative, the Committee welcomes progress, but – in light of evidence heard during our inquiry suggesting a less than fully committed approach – we believe a greater input and lead from government will be necessary if the full potential of the scheme is to be achieved. Accordingly we ask the UK Government to clarify how it intends to optimise outcomes from the consumer and demand-side perspectives and we also seek the views of the Scottish Government on the matter.

DECC is accountable for delivery of the benefits identified in the smart metering business case; and protecting the public interest throughout the period of the rollout, and beyond. Contrary to the evidence that the Committee heard, the Government has taken a leading role throughout the Programme. We have made clear to the energy industry that the Government is committed to all consumers and small business sites being able to benefit from smart metering by the end of 2020, we have put in place a regulatory, commercial and technology framework to ensure that companies deliver smart metering in a way that maximises value for money for consumers. This includes mandating the establishment of Smart Energy GB, an independent organisation tasked with delivering a national awareness campaign so that every household and small business in Britain understands the benefits of smart metering; and, putting in place an installation code of practice, to ensure consumers are protected and receive advice on how to make best use of their smart meters.

The Government continues to take a leading role to resolve remaining challenges in delivering the benefits of smart meters to consumers, including coordinating work to develop additional solutions that enable the in-home smart metering communications to work in every premise in Britain. In addition, following a two-year Government research project on the experiences of early users of smart meters, the findings of which were published in March 2015, the Government is leading on work to develop good practice energy efficiency advice and guidance materials, for use at the point of installation and beyond, to help installers deliver tailored advice appropriate to customers’ needs. The Government is also assessing energy suppliers’ planned provision of post-installation support, to determine whether further steps are required to ensure benefits are realised for key groups of consumers.

With regards to demand-side response, the introduction of smart meters will improve the ability to shift demand to match supply. Smart metering is a key platform for the development of a smart grid and the minimum technical specifications include the required functionality to enable significant demand-side response capability. The Government expects energy suppliers to develop and offer new smart time of use tariffs that will be attractive to consumers and help realise system-wide benefits. Consumers will be able to buy smart appliances that can switch on or off in response to price signals – and we expect these to become more widely available over the next decade. Consumers will be able to connect appliances to the smart metering system and give suppliers permission to directly control when an appliance is on. For example, a consumer may give a supplier permission to switch off electric vehicle chargers for a limited period overnight. The

Government will continue to play a leadership role on behalf of energy consumers across Britain to ensure both the direct-consumer, and system-wide, benefits of the rollout are realised.

NATIONAL GRID/INDEPENDENT SYSTEM OPERATOR – Para 190

190. The Committee listened closely to the debate about the role of National Grid and discussion of the merits of an independent systems operator (ISO) as well as the whole system approach that might be better encouraged by appointment of a system architect. During the Scottish Government’s evidence, Dr Sweeney referred to a “putative independent regulator in Scotland”. The Committee requests that both the Scottish Government, in its response to this report, and the UK Government – given we are talking about the GB system – set out how they see the future role of National Grid, the case for an ISO (if they discern one), and the benefits or otherwise that they consider a system architect could bring to the oversight and longer-term planning of the energy system.

The electricity system is changing, which prompts a wider debate about whether the current system architecture is best placed to minimise costs for consumers. This may require new roles to be taken on by different bodies, such as a wider remit for distribution network operators or the System Operator. There is a lot to learn from the experience of other countries, such as the creation of local markets in New York and the success of Independent System Operators in driving competition and innovation in North America and elsewhere.

We recognise the real strengths that National Grid brings GB as the electricity SO in terms of its track record and expertise. But as our system changes we need to make sure it is as efficient, secure and cost-effective as possible. There is a strong case for greater independence for the system operator to allow it to make the necessary changes. So, alongside the National Infrastructure Commission, we will work with National Grid, Ofgem and others to consider how to reform the current system operator model to make it more flexible and independent, and minimise costs for consumers as the system changes.

In its report into delivering future proof energy infrastructure, the National Infrastructure Commission will also evaluate whether we have the right framework in place to ensure the electricity grid is operated efficiently. This will include considering whether the current framework of system governance is in consumers’ interest. This NIC is expected to submit its recommendations to Government by Budget 2016.

CMA INVESTIGATION– Para 222

222. The CMA also found from its investigation that customers engaging least with the energy market – in terms of awareness and behaviour e.g. switching supplier – and “leaving most money on the table” were generally the most vulnerable (people on low incomes, the poorly educated, people with disabilities etc.). The Committee will return to the connected matter of fuel poverty – mindful of the November 2016 deadline for the target of eradication – when we undertake our annual budgetary scrutiny. In the meantime, we seek views from both the Scottish and UK Governments on what can be done to address the flaws in a system which, as we were told by the CMA, expects those with least to pay the most.

Our priority is to keep bills down for families and businesses across the country. The CMA is an independent body – they are the competition experts. It is right that they test the evidence thoroughly and find the right answers. They have already set out a set of possible remedies, which show they are willing and able to tackle problems in the market.

This Government has committed to delivering the recommendations of the CMA. We will act quickly and we will not hesitate to take further action where the market is not delivering a fair deal for bill payers.

ENERGY SECURITY – Para 224

224. In that spirit of greater engagement and co-operation, we have extended an open invitation to the Secretary of State to come and talk to us about energy security – a “first order issue” for her, as a House of Lords committee recently prioritised it – and other matters germane to energy policy. When so much of the evidence underlines the importance of leadership, clear and accountable decision-making, and coherent long-term planning, we would very much welcome her input. We look forward to hearing directly from Ms Rudd on her government’s policies as they impact on security of supply in Scotland and other areas of shared interest.

With regard to the impact of DECC’s policies on security of supply in Scotland, DECC will separately be providing an update to the Committee on GB security of supply, with particular reference to Scotland, in early 2016.