

R/14

Friday 13 February 2004

'UNNECESSARY AND MISGUIDED' MARKET INTERVENTION BY GOVERNMENT

- Chairman considers Government plans to consider further renewables subsidy 'unnecessary'
- subsidies worth at least £485 million this year are in place to encourage renewables
- no evidence that proposal will encourage further renewables development
- government intervention may increase risk to companies and discourage future investment
- customers' bills will rise for no clear benefit

Ofgem Chairman, Sir John Mogg, today (Friday) expressed his regret over the Government agreeing to consider amending the Energy Bill to allow further subsidies to be given to renewable generators located in remote parts of Scotland.

He said: "To amend the Energy Bill in this way is unnecessary and misguided. It would mean that renewable generators will pay less to transmit their electricity than traditional generators. A great deal is already being done to encourage renewable generation. The Renewables Obligation alone is worth around £45 extra for every megawatt hour of electricity produced. This is providing additional financial support of at least £485 million to the renewables industry this year alone.

"There is no evidence that further investment in renewable sources of electricity would result from a further subsidy of this sort. Indeed, as a result, some Scottish renewables would receive a subsidy that other renewable generators – even in Scotland and elsewhere in the UK - would not.

"If the Government proceeds in this way it will represent an unwelcome move away from the principles of cost-reflective charging for transmitting generation. Cost reflective charging is one of the cornerstones of the electricity generation market. The Government's ideas sit uncomfortably with the new European Electricity Directive which aims to promote competitive energy markets.

"Competitive markets have brought great benefits to consumers and will continue to ensure that environmental goals are achieved in the most efficient way possible. For competition to flourish companies need a stable regulatory environment without Government interference and should be able to compete on a level playing field. As the independent regulator, we made this clear to Government over many months. It is regrettable, even if the consequential cost increases are small, that GB customers will be faced by another upward pressure on their fuel bills.

"When the Government consulted on these proposals last year, it sought views on whether such options can be demonstrated to be efficient and well-targeted, consistent with our approach to other policy instruments, and with our objective to deliver a low carbon economy at lowest cost to consumers. We do not believe that any evidence has been put forward to provide such justification."

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Notes to editors:

1. In his statement to the House of Lords on Thursday 12 February, Lord Davies of Oldham, said: "As part of the consultation on transmission charges issued in August, the Government raised the question of whether special dispensation was needed for renewable generators in peripheral areas with high renewable potential which would otherwise be affected by the highest transmission charges, in order that the Government's renewable targets are met. We are prepared to look at discretion being exercised in this respect.

"We are not in the position to have the agreed solution on this yet. But we are working towards the objective that there needs to be an exception for this group of renewables. It is for that reason that we are agreeing to consider the principle of taking a power to give renewables in specified areas some dispensation to protect them from the high transmission charges, which was the burden of some representation. On Report, we hope to give effect to that in amendments to the Bill."

2. An amendment to reduce transmission charges for renewable generators in peripheral areas will be introduced as part of the plans to create GB-wide electricity trading and transmission arrangements. It is aimed at encouraging the development of renewable sources of electricity to contribute to achieving the target of having 10 per cent of electricity supplied from renewable sources by 2010. Explicit support for renewables already exists through the Renewables Obligation scheme, and a programme of capital grants.

3. A joint DTI/Ofgem consultation on 'Transmission charging and the GB wholesale electricity market' was issued in August 2003. Part 2 of that document was entitled, 'A DTI consultation on transmission charging in the context of the Government's policy objectives for growth in renewables.'

4. Ofgem itself is implementing a number of policies that support the Government's objective to increase the amount of renewable energy. These include administering the government's Renewables Obligation, the Climate Change Levy exemption for renewables and the Renewable Energy Guarantee of Origin. Ofgem is also playing a key role in ensuring that the electricity transmission and distribution networks are developed efficiently to allow for the growth in renewable generation.

5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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