



The Scottish Parliament
Pàrlamaid na h-Alba

SUBMISSION FROM THE SCOTTISH PARLIAMENT'S ECONOMY, ENERGY AND TOURISM COMMITTEE TO OFGEM'S TRANSMIT REVIEW

ABOUT THE COMMITTEE

The Scottish Parliament's Economy, Energy and Tourism Committee ("the Committee") is one of the subject committees established for the third parliamentary session. Its remit is to consider and report on the Scottish economy, enterprise, energy, tourism and all other matters falling within the responsibility of the Scottish Government's Cabinet Secretary for Finance and Sustainable Growth apart from those covered by the remits of the Transport, Infrastructure and Climate Change and the Local Government and Communities Committees.

Further detail on the remit, membership and work of the cross-party committee can be found at:

<http://www.scottish.parliament.uk/s3/committees/eet/index.htm>

THE 2009 ENERGY INQUIRY

As part of its work programme during 2008 and 2009, the Committee conducted a major inquiry entitled *Determining and delivering Scotland's energy future*. The remit for the inquiry was to determine, within the devolved context and the Parliament's competences, what type of future we wanted in Scotland in terms of the production, distribution and more efficient use of energy, and how and when it can be delivered to meet the Scottish Government's objectives of increasing renewable energy generation and reducing emissions. The inquiry also considered how energy supplies could be secured at an affordable price and how economic benefits from the energy industries could be maximised.

The inquiry concluded with a report published on 30 June, 2009¹. This followed a near year-long investigation into the subject.

¹ Economy, Energy and Tourism Committee, 7th Report, 2009 (Session 3), *Determining and delivering on Scotland's energy future*, The Scottish Parliament.

OUR VIEWS

The Committee welcomes the launch by Ofgem of the Project TransmiT review of Transmission Charging (“TransmiT review”) and the opportunity of making this submission. The views we express have been agreed by the Committee as a whole.

The Committee acknowledges that Project TransmiT asks whether respondents feel its remit is appropriate. The Committee would wish to place on record that, notwithstanding work going on within Ofgem and the UK Government’s Department for Energy and Climate Change (DECC) on access to the grid and connection charges, these issues are of paramount importance to the electricity industry, consumers and other stakeholders in Scotland and that work should continue to ensure enduring arrangements are in place to give long term clarity to investors on a fair UK-wide framework for new connections to the grid.

The Committee understands that the drivers for change to the transmission charging regime include the requirement for low carbon solutions as well as delivery of the best deal for consumers and security of supply, and believes that the current transmission charging regime which is predicated on seeking to encourage generation closest to the areas of highest demand is outdated, and does not help deliver a more balanced, sustainable or diverse electricity generating mix.

Historically, locational charging signals have sought to encourage all generators to locate close to demand centres in Great Britain and it is time to reconsider as to whether the current regime continues to be appropriate for all types of generation, particularly to drive a move to a more desirable, decentralised and more energy efficient system over the longer-term, which would include a greater role for technologies such as combined heat and power plants with district heating networks.

We also concur with the views expressed by some that it is essential that a review of transmission charging arrangements is carried out independently of National Grid.

The Committee believes that the current system does not adequately take into account other issues which are considered when investment decisions are taken, such as availability of fuel. The Committee believes that the decisions investors will make in the future will pay more attention to the availability of fuels, the requirements for low carbon solutions, and the desire to increase security of supply by avoiding sourcing fuels from geopolitically unstable areas of the world (with associated rising costs).

The Committee believes that there remains an anomalous situation whereby the transmission charging regime is not designed to incentivise electricity generation from the UK’s best renewable resources and that a redesign must take place for the Scottish and UK Governments to have any prospect of achieving ambitious greenhouse gas emissions cuts and making a speedy transition to a truly low carbon economy.

Under the current methodology, it is nearly impossible for generators to accurately forecast the transmission charges they will face from 2015 onwards. The risk of even

higher transmission charges will have significant impacts on investment in new low carbon generation.

The Committee believes that any electricity transmission system which continues to incentivise centralisation of generation will lock in higher carbon investment decisions for the next 50 years, resulting in a limited geographical spread of generation, less than optimal use of the UK's renewable resource, a less robust electricity transmission network, and the potential to miss greenhouse gas emissions targets. In addition such a regime will compound a situation whereby grid investment is badly required in more remote areas to tap into more diverse, cutting edge and dispersed renewable generation. Any signals to investors which suggest the development of the grid will be incentivised in areas of highest demand will have implications for investment decisions in more remote parts of the UK, and could have implications on the UK lead on research, development and deployment of some renewable technologies.

In this respect, however, we also believe that Ofgem and DECC need to review access and connection charges, particularly in remote areas given the current bundled system in Scotland. We were disappointed to note the news that in recent days, Scottish Hydro Electric Transmission Limited has deferred the start of constructing the Western Isles-Mainland sub-sea cable and at this stage, have said that they are unable to confirm when, or if, it would go ahead. We agree with others that the UK Government and Ofgem now need to deliver the appropriate conditions that will secure a sub-sea cable connecting the Western Isles to the Scottish mainland as well as other planned developments for Orkney and Shetland. These are vital to delivering Scotland's renewable energy potential, sustaining and connecting communities and to creating new jobs.

The Committee believes that the review of transmission charging must also consider the likely effects of any change on costs to consumers of both gas and electricity in Scotland, and that it should deliver a reformed structure which protects low income consumers in particular and does not drive more people into fuel poverty.

We welcome the establishment of the TransmiT review and the opportunity this offers to make this submission. **We would like to extend an invitation to Alistair Buchanan and his team to fulfil the commitment that Ofgem has made to come to Edinburgh at a convenient time to discuss the work and tentative findings of the review with the Committee and other bodies in Scotland.**

Economy, Energy and Tourism Committee
The Scottish Parliament
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