

Renewable energy in Scotland

The **Energy White Paper**, for the first time, puts the UK on a path to cutting CO2 emission levels by **60 per cent** by 2050. This is set against a backdrop of maintaining security of supply, promoting competitive markets and ensuring every home is adequately and affordably heated.

To help achieve this, the UK Government is aiming for **10 per cent** of electricity to come from renewable sources by 2010 and hopes to increase that to **20 per cent** by 2020.

Within this, the **Scottish Executive** has set a formal target of **18 per cent** of electricity to be generated from renewable sources by 2010, rising to **40 per cent by 2020**. The higher targets for Scotland reflect the **natural resources** at Scotland's disposal and the potential for the further development of renewable forms of energy.

Ofgem is committed to working with Government and the Scottish Executive to meet the challenge of achieving a low carbon economy, **at least cost to consumers**.

Where are we now?

At present, renewables account for **3 per cent** of electricity generated in the UK. Scotland's contribution is higher, with around **10 per cent** of the electricity generated in Scotland coming from renewable sources - mainly hydroelectric. The breakdown of sources is shown below.

Fuel source	Contribution to generation (%)	
	UK ⁽¹⁾	Scotland ⁽²⁾
Gas & oil	42	21
Coal	32	32
Nuclear	23	37
Renewables	3	10

Sources:

(1) "Our Energy Future - creating a low carbon economy" (CM 5761, February 2003), p.10.
Figures are for 2002. Figures do not add up to 100 due to rounding.

(2) "Key Scottish Environment Statistics 2003" (Scottish Executive 2003), p.7. Figures are for 2001.

What is Ofgem doing to support the development of renewable generation?

A single British market for electricity

The creation of a **single British market** for the **trading and transmission** of electricity will help generators in Scotland, including renewable generators, by giving them access to a wider British market.

The electricity **transmission networks** - especially in the north of Scotland - need **significant investment** to enable new renewable generation to be connected.

Under existing arrangements, these investment costs would be borne exclusively by Scottish customers. The introduction of **GB-wide** transmission arrangements will be good for consumers in Scotland, as these costs will be more **fairly spread** across Britain. Scottish customers will also benefit from **increased competition**.

UK legislation is required to bring this into effect. The House of Commons' Trade and Industry Select Committee broadly welcomed the plans when it considered a Draft Bill earlier this year. In order to meet the **April 2005** target implementation date, early parliamentary time at Westminster will be needed in the next Session of Parliament.

Rewiring Britain

The **distribution networks** will also need significant investment to accommodate the anticipated growth in **distributed generation** - generation which is connected to the distribution network rather than the high voltage transmission network.

Distributed generation is typically smaller generation such as renewable generation, including small hydro, wind and solar power and small-scale **Combined Heat and Power (CHP)**.

Ofgem is working with industry to develop the right **incentives** for **efficient investment**, which is capable of meeting demand for distributed generation **at least cost** to consumers.

Price controls

Ofgem uses **price controls** to regulate the **monopoly** businesses responsible for the transmission and distribution of electricity. In Scotland, these are owned by **Scottish Power (SP)** and **Scottish & Southern Energy (SSE)**.

Price control regulation provides **incentives** for companies to manage and operate their networks in an economic, efficient and co-ordinated manner and **invest** in their networks in a timely and efficient manner.

The next **distribution** price controls for the Scottish companies are due to take effect in **April 2005**. Ofgem is currently **consulting** on the timetable for the Scottish **transmission** price control review. The **price control review** process will consider how efficient investment in the networks can be promoted to help the development of **renewables**.

The transmission companies have already started work on looking at where the network needs to be expanded to help support the increase in renewable generation. This will involve **additional expenditure** which has not been foreseen under their existing price controls.

Ofgem has told the companies it will take into consideration any **related expenditure** they need to make now, when setting the new price controls - although it will be examining all expenditure to ensure that it has been carried out in the most efficient way.

Renewables Obligation Scotland (ROS)

One of the ways in which Ofgem helps the Scottish Executive meet its environmental objectives is through administering the **Renewables Obligation Scotland (ROS)**, which requires suppliers to provide "green" electricity.

Ofgem also administers exemptions from the **Climate Change Levy (CCL)** for renewable electricity and **Combined Heat and Power (CHP)**.

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