

Dear Ian and Kersti,

Please find below a response to your Project Discovery consultation, which has been prepared through consultation with the British Wind Energy Association's (BWEA's) Grid Strategy Group. I am submitting this on behalf of our client, BWEA. If you have any comments or questions, please don't hesitate to contact myself or Gordon at BWEA.

BWEA welcomes the opportunity to respond to Ofgem's consultation on the scenarios underpinning your "Project Discovery" work. First and foremost BWEA would commend Ofgem on this initial consultation which we have found informative and which has laid some important groundwork for future development. It is a challenging political message to present a set of choices which all encompass energy price rises – nonetheless decisions need to be taken in the light of the best information available, and we welcome this candid and informative appraisal from the Regulator.

We agree with Ofgem that there are implications for both the design and function of current energy markets and whether they have the capacity to deliver the required objectives without further reform. We also agree that there are fundamental implications for Ofgem and its role – namely that the focus has traditionally been to protect customers through the promotion of efficiency and a focus on overall cost reductions. With the enhanced powers and duties conferred on Ofgem via the recent Energy Act and the determination of Government that Ofgem will play a wider role in facilitating climate change and security of supply objectives, this focus is rightly changing to a longer-term view which is more societal-focused and considers future as well as present consumers. A key message is the need to foster investment in both infrastructure and the processes which underpin delivery, to avoid future price spikes. We commend this fundamental change in Ofgem's approach to its future work.

Some high level comments on your questions are provided below. BWEA looks forward to continued engagement in the process as the project develops further.

Scenario-based analysis

BWEA agrees with the use of scenarios, especially where there are uncertainties or some difficult decisions to be made (the consequences of which will stretch out for, potentially, decades and longer). Some observations are that:

- The scenarios where green targets are not met are helpful as a counterfactual. They also powerfully illustrate that failing to meet green targets is not the "cheap" option. We would encourage Ofgem to consider how the adverse impacts of these hypothetical scenarios could be further mitigated in both its strategy and detailed policy development work. The core objective of securing climate change and security of supply objectives via achievement of renewable targets should form a focus for this work.
- Both of the green scenarios assume that new nuclear is on-line by 2020. Given the risks inherent in nuclear new build, a key additional sensitivity should be included which assumes a delay due to either generic design issues or commissioning difficulties.
- There are now a multitude of scenarios in use for *inter alia* the Energy Networks Strategy Group work, constraint cost forecasts for the Transmission Access Review, Long-term Electricity Network Scenarios, Project Discovery and many more outside of Ofgem's work. We would find it helpful if, going forward, these scenarios were rationalised via an agreed process. This would

result in a core scenario suite which all stakeholders endorsed, so that amendments, sensitivities and impacts were easily accessible and understandable for stakeholders.

Assumptions

The assumption that markets respond to the price signals is perhaps the most contentious assumption. There are many barriers to the “theoretical response of markets which also need to be considered, including planning issues, grid investment and connection and the promotion of sufficient investor confidence and certainty. There can be a need to initiate specific policy or market interventions - the Renewables Obligation being an obvious example – that in turn promotes investment. The government’s decision to implement CCS support is also evidence that the government believes the market cannot alone provide the conditions needed for much of the long-term investment that forms the driver of the scenarios.

Stress tests

The stress tests seem reasonable although we note that the scenarios look further out to find stress points for the low wind scenario (beyond 2024 rather than 2020). This does not appear to be on a consistent basis with some of the other stress tests. We might suggest other stress tests in a medium term timeframe, such as nuclear generic design defects, CCS technology issues or operational issues with leading edge HVDC transmission designs.

We also note that “pure” market forces (presumably working in the way they are supposed to) might lead to a risk of interconnectors exporting at times of peak demand. This presents an equivalent magnitude of risk as that derived from a “low wind” day. This is an interesting finding of itself and suggests the value in promoting increased interconnection capacity with our European neighbours. We also note however that the “unintended consequences” of functioning, but unfettered market forces does not form one of the risk factors that Ofgem highlights in its key seminar and press material.

BWEA also agrees with other commentators such as Consumer Focus (presenting at the Project Discovery seminar) on some of the additional stress tests that you could explore.

Further analysis

In its seminar on Project Discovery Ofgem highlights some next steps and areas for consideration. This includes questions around GB’s place in global gas markets. We would add to this the European electricity market and exploring the implications of further interconnection and trade of green and carbon credits.

Overall we strongly support the recognition given to the role of renewables in mitigating price shocks and contributing to security of supply in this work. This forms a strong complement to the environmental benefits of renewables. BWEA would welcome further analysis which looks at securing this full suite of benefits and in remedying any weak points found in the stress tests – for instance demand-side participation and interconnection are clear mitigating actions that can be taken to ensure security and adequacy in the case of co-incidence of low wind and peak demand.



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