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30 March 2010

RPI-X@20 – Emerging Thinking **A Response from Orkney Islands Council**

Orkney Islands Council welcomes Ofgem's 'Emerging Thinking' Paper as an early indication of fundamental changes in the regulatory regime for electricity supply. The Council has some general observations to make on some of the ideas in the paper.

Orkney has important issues at stake in terms of electricity supply. The Council's vision for Orkney is one in which the islands play host to a growing and nationally important renewable energy industry in the years to come, to the benefit both of Orkney and of the UK as a whole. It is worthy of note that this vision builds on the role that Orkney has played in respect of North Sea Oil over the last 35 years, a role which has clearly benefited both the County and the country, although with the significant difference that Orkney can help develop the core technologies of the new industry, as well as becoming a major producer. In addition the industry will not be defined by a finite timescale, as the oil industry is.

At the same time as welcoming and promoting the renewable future for Orkney, the Council is very aware that fuel poverty is a major problem in the islands. The cool and windy climate of the islands, combined with relatively low average incomes, together mean that Orkney suffers from one of the highest levels of fuel poverty in the country. The importance of consumer interests is therefore fully recognised by the Council.

The extension of Ofgem's remit to include the interests of future as well as of existing consumers presents it with a difficult balancing act, given the urgency of decarbonising Britain's electricity supply, which the Ofgem paper rightly recognises as the 'primary driver' for a new regulatory system. Government at all level has set challenging targets which are likely to become ever more pressing, and require more concerted action, as the need to reduce carbon emissions becomes more widely acknowledged. The Council agrees that decarbonising electricity should be the main driver, but it would like to see more thought given to addressing the needs of poorer consumers through the new regulatory system. The solution to fuel poverty does not lie entirely with the energy industry – indeed part of the solution lies in reducing energy consumption – but the regulatory system needs to ensure that a contribution is made by the industry.

The likely shape of the future electricity system – a more decentralised system flowing from periphery to centre (whether this is the periphery of the UK landmass, or offshore wind farms), with more demand management at aggregate level as well as the level of consumers, and a requirement for diversified sources of renewable energy – implies massive change and investment in electricity production and distribution. Ofgem's own Project Discovery has demonstrated the extent of the challenge.

Orkney can play an important role in helping to meet the challenge. The UK's best renewable resources lie around Orkney and the other islands, and it is unthinkable that these should not be fully developed and exploited in the years to come. We need a regulatory system which enables this to happen, and in this context the Council's concerns about the level of transmission charges is well known, and something which the Council hopes is addressed through the new regulatory regime.

Some of the themes and proposals in the consultation paper are particularly welcomed by the Council. The proposal for a more long term, stable, regulatory regime, will assist companies and individuals in making the substantial changes required. The proposal for greater engagement with consumers, who need to be more actively involved for example in terms of managing demand, is helpful, although the consultation paper does rightly note that individual consumers have limited resources and can find consultation difficult. Consultation fatigue is a problem of which the Council itself has experience, as its own consultation programme has expanded in recent years. Ofgem should recognise the role of local authorities in representing and speaking for consumers, present and future, in their areas, both because of the democratic nature of local authorities and because they are better resourced to participate in consultation. Currently local authorities are not specifically included in the list of consultees for Ofgem and the network companies, and the Council's view is that they should be so included.

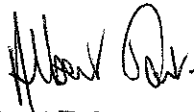
Small and micro-generators are another growing group which need to receive specific attention in any consultation programme, and their relative lack of resources compared with the major national companies recognised. There is already some evidence that consultation by network companies is not reaching them.

In a more decentralised electricity system, the individuals promoting such small-scale projects can sometimes be as important as the national companies as a source of innovation, to which the consultation paper rightly attaches importance. The proposals to encourage cross-sectoral working, and to open up innovation funding to non-network companies, are a step in the right direction. The Council is promoting a plan for an Orkney Pilot project, which would involve a number of different partners in a community wide supply and demand management project, and it would wish to access innovation funding for this.

The proposal in the consultation paper for different treatment of companies, depending on their track record, is relevant and appropriate to the situation where there is likely to be a wider range of companies, of varying sizes, involved in the electricity system.

The consultation paper notes that, to promote engagement, the regulatory system has to be simple and consultation papers more accessible to a wider group of people. In some respects the proposals, taken as a whole, represent a more extensive regulatory system, for example in the range of incentives envisaged, the proposals for consultation, and the proposal, as noted above, to treat companies differently. Extension of the regulatory system may well be required to cater for a more decentralised and diversified electricity system, with a greater range of active players, especially consumers and producers. But a more extensive system should not be allowed to become a more complicated one. Every effort needs to be made to ensure simplicity where that is possible. Consultation papers can only be simple if the regulatory system itself is simple.

A more extensive system, combined with a need to keep it as simple as possible, will impose greater demands on Ofgem itself, which will need to ensure that it has the capacity to operate the system. This is a consideration which further consultation on a new regulatory system should address.



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