

Project Discovery

Prospect submission to Ofgem consultation on options for delivering secure and sustainable energy supplies

Paper Ref: 16/10

31 March 2010

www.prospect.org.uk

INTRODUCTION

1. Prospect is a trade union that represents over 122,000 professional, managerial, technical and scientific staff across the private and public sectors. In the utilities sector, Prospect represents engineers, managers and other professionals in the electricity supply industry and increasingly within the gas and water sectors.

PROJECT DISCOVERY

2. Prospect warmly welcomes Ofgem's Project Discovery. Prospect has long forewarned that the market alone will not deliver the necessary investment and supply security and that action is needed now. Our view is that Ofgem must therefore maintain the momentum of this work and not be deflected by other events.

POSSIBLE POLICY RESPONSES

3. Prospect does not have confidence that current arrangements will deliver a low carbon, secure energy system, so in this respect all the scenarios considered by Ofgem are preferable to doing nothing. However, packages A and B may not be sufficiently robust.

In relation to specific issues in the consultation paper:

CHAPTER 3 – APPRAISAL OF CURRENT ARRANGEMENTS

4. Question 1: Yes we agree.

5. Questions 2 & 3: The availability of an appropriately skilled workforce, including in supply chains, also needs to be considered. On distributed generation, it is not clear that a more responsive demand-side would, in itself, allow a greater amount of variable renewables to be connected to the system. There are significant engineering challenges to address (as outlined in the introductory summary of our attached 2007 response to a DTI consultation on 'Distributed Energy').

CHAPTER 4 – POSSIBLE POLICY RESPONSES

Questions 5 - 7:

6. The policy packages provide a helpful framework, and the recognition that none of them are achievable without government involvement is welcome.

7. Package A, page 35, refers to the development of smart meters. Our July 2009 response pointed out that there are issues relating to smart metering that require further consideration. (See the 'Introduction' to the attached submission).

8. Package C, pages 41-2, we have previously argued (in line with Ofgem's analysis here) that there would be benefits in reforming the ROCs system so that it genuinely benefits smaller scale and less developed renewable sources. (See ROCS consultation response attached).

CHAPTER 5 – ASSESSMENT OF THE 5 PACKAGES

9. Whilst many of our members would, for good reason, favour large-scale, centralised supply-side solutions, Prospect supports a diverse and balanced energy policy so we would not want to see renewables or other newer technologies crowded out. On the other hand, the greater clarity that would result from specifying the generation mix should help to encourage investment. It would also give greater certainty over future workforce requirements and could facilitate a greater focus on R&D to deliver the most efficient technologies within the specified framework.

10. However, both packages D and E are being mooted in a very different context to that which existed under the CEGB. Not only are these no longer nationalised industries, they are dominated by multinational companies, mainly foreign owned. So however attractive package E may be, there would clearly be major corporate and political challenges in its implementation. We do not have the luxury of lengthy delay whilst the various parties involved air disagreements.

11. Ofgem's analysis of package E refers to clashes with EU regulation. It does not consider how such a scenario, or a variation on it, could be made to work with the grain of the EU energy market.

12. We also believe that any modelling of future scenarios on energy demand and how it is met must more clearly factor in the engineering characteristics of the available technology. Whilst the Project Discovery analysis is an essential contribution to our understanding of the current limits of the market in delivering a low carbon future, generation technology also plays a vital role. Although intermittent wind is mentioned in the scenarios, we believe that the technical capacity of oil/clean coal/nuclear and their likely running regimes in future market contexts should also be given a proper treatment.

13. The analysis does not appear to take account of the fact that the major UK companies are largely European owned and most countries are facing the need to renew their generation and network at the same time as the UK. This means that if the UK market fails to offer sufficient certainty or returns it is logical for these companies to allocate scarce capital to other markets where these features exist. This will also impact the supply chain in respect of plant manufacture and the development of a skills base that enables the objectives of energy policy to be met.

CHAPTER 6 – TIMING

14. As previously stated, we believe that Ofgem must maintain the momentum of this work. Failure to resolve these issues as a matter of urgency poses real risks to the security and sustainability of the UK's energy supply.

**Prospect
March 2010**

Attachments:

- (i) Distributed Energy – Prospect submission to the DTI
- (ii) Smart Metering for Electricity and Gas - Prospect submission to DECC
- (iii) Statutory Consultation on the Renewables Obligation Order for 2009 - Prospect submission to DBER