RenewableUK
Greencoat House, Francis Street
London SW1P 1DH, United Kingdom

Tel: +44 (0)20 7901 3000
Fax: +44 (0)20 7901 3001

Web: www.renewable-uk.com
Email: info@renewable-uk.com

Maire Williams
Ofgem
9 Millbank
London
SW1P 3GE

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By e-mail: sustainable.energy@ofgem.gov.uk

By e-mail: zoltan.zavody@renewableuk.com

Dear Maire Williams,

RenewableUK and Scottish Renewables consultation response

STRENGTHENING STRATEGIC AND SUSTAINABILITY CONSIDERATIONS IN OFGEM DECISION MAKING

Summary

As the trade and professional bodies for the UK wind and marine renewables industries, RenewableUK and Scottish Renewables very much welcome Ofgem's consultation on its approach to strategic and sustainability considerations. Major transformation of the energy system necessarily requires upfront investment, anticipating changes in markets, costs, and behaviours that will justify this investment down the line. RenewableUK and Scottish Renewables would like to contribute the following main points:

- **It is important to incorporate wider short-term effects as well as medium-term and long-term effects.**
- **These effects include the cost of delays, uncertainty, and loss of momentum.**
- **We support consideration of the concepts of optionality, diversity and resilience, learning and supply chain development, and lock-in / lock-out.**
- **It is important for this strategic and sustainability approach to be incorporated into policy thinking in all areas relating to renewables deployment.**

Introduction

RenewableUK and Scottish Renewables collectively represent the major sectors and technologies within the UK's renewable energy industry. Our members include supply chain companies both manufacturing and services; renewables developers & generators; and conventional energy companies with renewables portfolios. The associations' response aims to represent wind, wave and tidal industries, aided by the expertise and knowledge of our members.

Our response addresses the distinction between short-term, mid-term, and long-run impacts, followed by a discussion of the relevance of each of the quantitative approaches to the climate change and renewable energy agenda.

Short, Medium, and Long-term Impacts

We find the consideration of both mid-term strategic and long-run sustainability effects helpful. The challenge is to ensure that these are considered in every aspect of Ofgem policy, notably the regulation of the transmission and distribution networks and of the system operator under upcoming RIIO price controls.

On long-term impacts, we very much welcome consideration of cumulative carbon and of the need to achieve 2050 carbon reduction targets, as part of this framework. In order to assess progress towards 2050 targets, we believe two intermediate indicators need to be incorporated:

- achievement of renewables target to 2020
- achievement of decarbonisation of electricity by 2030

In addition, we would like to see a consideration of wider short-term effects. These might include:

- impact of delays and uncertainty, including increased cost of investment, aborted projects, and reduced competition in generation
- loss of momentum in renewables deployment, leading to the need for higher cost support schemes, jobs foregone, and loss of international leadership

We encourage Ofgem to take into account the above considerations when approving transmission company business plans under RIIO-T1, and when setting the regulatory requirements for further investment. – There is a danger that the pursuit of "least cost" investment can lead to delays that prove highly costly. This is not to say that investment should not be thoroughly justified, but that the balance of evidence required should recognise both the realities on the ground and the cost of delays.

Finally, we would encourage Ofgem to place sustainability considerations and targets at the beginning of their decision making process, rather than at the end within an Impact Assessment. It is then possible to work back from the long-term sustainability goal and identify the least regret activities that will achieve this, rather than proceeding with "no regret" activities that fail to achieve long-term goals and end up incurring wider societal costs.

Optionality

We welcome Ofgem's recognition of the optionality inherent in much anticipatory investment. The early development of grid infrastructure enables more renewable generation to build and connect with confidence. Conversely, a lack of new grid infrastructure reduces optionality and locks us into conventional forms of generation that can connect to existing networks but lack wider economic, environmental, and social benefits.

Diversity and Resilience

We support Ofgem's consideration of diversity and resilience. Overall, the wider the generation portfolio, the more resilience it has. We note that "baseload" generation may be an exception to this, on the basis that it reduces the space within which more flexible and variable technologies can balance out.

There is also a need to consider here the long-term benefit of renewable generation on energy prices. This applies in two ways: First, the Merit Order effect, whereby wholesale prices reduce immediately as a result of the use of the most economically efficient form of generation such as renewables, as has been the case in Ireland. And second, the long-term protection against price volatility and increases in fossil fuel prices, as set out in the conclusions to Ofgem's Project Discovery.

Learning and Supply Chain Development

Again, we welcome Ofgem's consideration of learning and supply chain development. Costs generally decline with the scale of deployment. Another factor to consider is the time it takes for organisations to gear up and transform in order to undertake new activities. This applies for example to distribution companies, which we believe will need several years of development to become more proactive managers and operators of their networks. We encourage Ofgem to look carefully at how this consideration can be effectively incorporated in the development of RIIO-ED1 price controls.

Pathways, Lock-in, and Lock-out Effects

Existing infrastructure has to some extent locked our energy system into conventional forms of generation. It is only through the realignment of charging methodologies and support schemes that this can be unlocked and opened up to the diversity of generation that is located away from existing grid. Accordingly, we again encourage Ofgem to ensure that strategic and sustainability considerations are fully incorporated in the development of transmission charging methodology. Discussions around transmission charging are currently based on the principle of cost reflectivity, but it is questionable whether they fully take into account the wider implications of charging that prohibits deployment of wave and tidal technologies in the Scottish islands for example.

We would be pleased to discuss the above issues further with you, and look forward to being involved in the autumn workshop.

Yours sincerely,

Zoltan Zavody
Grid Policy Team RenewableUK

Catherine Birkbeck
Policy Manager, Grid & Markets Scottish Renewables