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31/10/2014

The Smith Commission,  
7th Floor,  
144 Morrison Street,  
Edinburgh  
EH3 8EX

Dear Sir,

**SUBJECT: Orkney Renewable Energy Forum – Submission to the Smith Commission**

Orkney Renewable Energy Forum provides the following input to the Smith Commission based on its 13 year experience of seeking to enable a sustainable energy system to be built in and around Orkney. The points made concern the energy sector in general, although the first point concerns a proposed over-arching duty to be placed on all activities in Government.

The points raised were distilled from public meetings to discuss the opportunities afforded by this Commission.

OREF would of course be willing to provide further information, or speak to any points if requested. Better still it would be delighted to demonstrate its points should the Commission need to come fact-finding at some point.

The 4 points are:

1. Sustainable Development should be placed at the head of the objectives of any new body created in Scotland or formed by the division of existing institutions.
2. Electricity supply planning should be geographically responsive
3. Better regulation of markets by OFGEM
4. The Crown Estate should be abolished

We look forward to the results of your deliberations.

Yours faithfully,

Neil Kermodé  
Chair

## 1. Embedding Sustainable Development as a primary duty of any public body.

### **Principles underpinning suggestion:**

Any institution established or subdivided as a result of the devolution of powers should automatically have sustainable development objectives placed at the head of their responsibilities.

### **Assessment of current situation:**

Progress towards a properly sustainable nation is being hampered by a lack of polarity of purpose amongst the various emanations of the state/departments/quangos etc. As a result time effort and resources are wasted on dealing with the fall-out from incoherent decisions and resolving unnecessarily disruptive outcomes brought about by a lack of a central 'vision'.

It is hard to see that any public sector activity is seeking to create an un-sustainable outcome, however the absence of this as a fundamental principle is leading to this. Examples exist where purely short term departmental self interest (programme/cash/position) is taking precedence over the strategic needs. This would be dealt with by a common sense of national purpose.

### **Advantages to Scotland and the UK:**

The removal of pointless and unintended competition for resources is a hindrance to progress and also drains resources.

### **Disadvantages to Scotland and the UK:**

Sustainable development requires a long term view and this will prevent short-termism. Costs will therefore tend to be slightly higher initially since costs in the long term are being avoided; however the overall cost to the nation will be lower overall.

### **Practical and/or legal barriers:**

The change on thinking required will require management. There are examples of such change being implemented through tokenistic activities and this must be avoided. Similarly there are examples where sustainable development has driven the agenda and benefits have been quickly realized and secured.

### **Financial costs and/or benefit:**

It is impossible to place a monetary value on this approach that would be meaningful. However the alternative of promoting unsustainable and divisive activities is clearly unthinkably expensive. The opportunity to establish the mission statement for an entire nation should not be allowed to pass.

**2. Integrated planning and delivery of sustainable electrical energy supplies by ensuring DECCs energy planning processes are geographically responsive.**

**Principles underpinning suggestion:**

Scotland has over the last decade created a global leadership position with regards to its commitment to the supply of energy from renewable energy and associated moves to reduce energy demand.

This leadership position has been backed up by world class achievement and technological breakthroughs in sustainable energy planning, micro-wind, onshore wind, offshore wind, energy efficiency, active grid management and marine energy.

The development of marine and wider renewable energies and associated management systems has been backed by both the Scottish and UK public sectors, but also by domestic and overseas businesses, by generators and of course by electricity customers. The multipliers associated with public investment in the sector are very good, with every public pound being backed by 3 or 4 private pounds. The cost to the customer has also been entirely affordable. During a period where fossil fuel prices and rampant profiteering have increased electricity prices the costs of renewables obligations are still a minor contribution to the overall cost of energy.

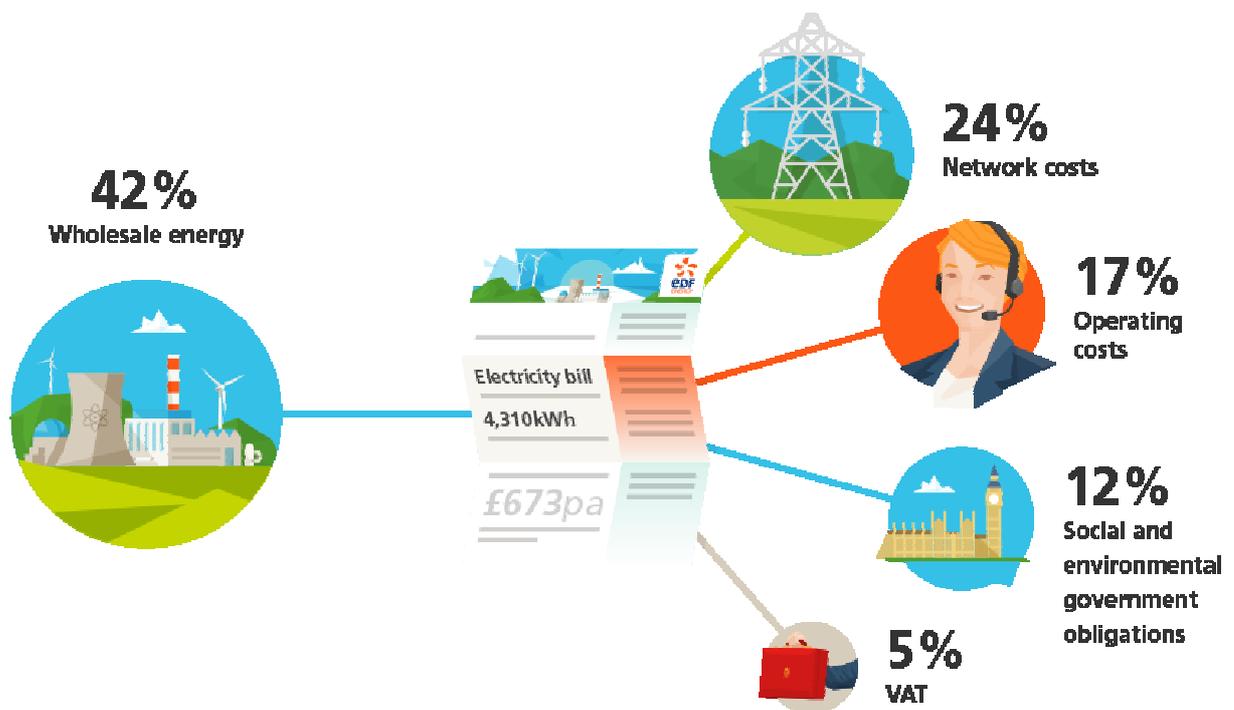


Illustration prices shown on bill are based on an average EDF Energy customer on a standard variable tariff paying by Direct debit (Incl VAT) based on a national average of all regional areas for 2013.

Significant technical innovation has been achieved despite the only modest support provided by both Scottish and UK governments to renewables. The phenomenal range of success has been achieved at a minimal level of public sector support given the level of innovation, education and participation needed to make these achievements possible.

The further progress of the current de-carbonising energy revolution and the securing of the longer term benefits from the early investment work that has been done is being stopped and

actively undermined by the dislocation of UK wide energy policy from the realities required to deliver sustainable energy solutions in all parts of the UK.

## **ENERGY POLICY NEEDS TO BE FOR ALL PARTS OF THE UK RATHER THAN BE ACROSS THE UK**

In particular:

- the perverse approach to prioritizing grid upgrades based solely upon the proximity to demand and ignoring the efficiency and security of supply
- The outdated mechanisms for managing the grid system and for making decisions about its function and development
- The discriminatory approach to use of system charging which socializes a number of major cost factors across all system users but requires distant users to pay full and disproportionate costs for their connections
- The lack of a strategic UK wide plan for future grid development that recognizes the future electrification of transport, heat and many industrial processes
- The merits of electrical energy storage alongside the storage afforded to coal, gas and oil
- The opportunities for export that could arise from energy transformation

The key aspects that have created these benefits are

- Clear and increasingly ambitious targets for renewable energy supply being set by successive Scottish Governments
- Cross party commitment to make Scotland a leader in sustainable energy
- Widespread interest, backing, investment and achievement from Scottish and UK business in working to deliver the generation and infrastructure capacity needed to meet the targets
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Where you have the ability to set –targets and policy goals you need to have the ability to deliver them, the responsibility to plan how this will be achieved and the accountability for whether they are delivered

### **Assessment of current situation:**

Energy planning is

- too centralized as a function around London, with policy makers having little if any experience of wider UK issues and opportunities,
- poorly informed about regional differences in energy resources, energy demands and possible energy solutions
- too short term, focusing solely on the next few years instead of dealing with fundamental medium and longer term restructuring
- does not reflect changing global, national and local circumstances
- does not keep pace with latest technology and market trends
- fails to educate consumers rather than simply respond to the latest media stories about customer concerns
- seeks to preferentially support vested interests within the existing energy supply systems
- fails to address the fundamental energy challenge of reducing energy demand as well as de-carbonising energy supply
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In Orkney we have time and again experienced the “penny dropping syndrome” where a policy maker, politician, investor or industrialist comes to these islands which are an epitome of the UK’s and Scotland’s energy future and say “OK I now realise what is needed and what the issues are that didn’t make sense when I was sitting in a city centre office”.

The point is that energy does not exist, is not produced, cannot be transported and is not consumed under a set of average UK wide or even Scotland wide conditions. Energy planning

and policy **MUST** be exercised in the full knowledge and understanding of the on the ground realities about energy if it is to be successful.

**The mechanisms for informing energy policy, the structure for organising energy policy and the controls over the implementation of energy policy need to be devolved to a far greater extent than is currently the case.**

### **Advantages to Scotland and the UK:**

The energy profiles of the various parts of the UK are very different from each other and there is not and should not be a one fits all solution.

The increasing roll of renewables in the UK and Scotland's energy mix is serving to exacerbate these differences as the benefits of optimal combinations of energy generation and demand are becoming clearer and in some places delivered.

A regionally diverse energy policy which integrated what needs to be integrated but liberates what needs to be prioritised regionally would provide medium term security and price control. Needs the goals of energy supply and demand set-out and then leave industry and customers to work out how best to do it supported by a strategic planning framework and where needed public support for critical energy network infrastructure and key technology development support.

If the present policy making structures are effectively reorganized to better reflect the geographical diversity of the UK and Scotland the following benefits will arise:

- Provide more cost effective short, medium and long term solutions to energy supply
- Would enable more focused action to combat fuel poverty
- Would maintain and accelerate progress towards de-carbonising our energy systems
- Manage to retain the dominant position established in the offshore wind sector
- Will avoid losing the leadership position created and developed in marine energy
- Would encourage the growth in energy related exports as smart solutions are discovered and developed in the UK
- Will sustain thousands of jobs in the new energy sectors that are currently being put at risk through wavering energy policies
- Would provide better opportunities for utilizing energy solutions that have a high level of local content

### **Disadvantages to Scotland and the UK:**

It is hard to see how an improved system for energy planning would be any kind of disadvantage to the UK or Scotland. The whole premise of the suggested devolving and geographical sensitising of energy planning is that it would provide a better outcome for all energy customers and for UK wide and local business. There would likely be some losers from any such change to energy planning. These would include overseas suppliers of large centralized energy generation plant which may not be needed to the same extent in a better planned and managed energy system. Incumbent businesses in the current energy supply system that are unwilling or unable to take on new ways of thinking and working may be replaced by more nimble solution providers. Business practices that have grown and been established in regulated monopoly markets would also come under pressure and hopefully be eradicated.

Obviously these outcomes are not good for those involved but they could and should be good for the energy market as a whole.

### **Practical and/or legal barriers:**

The proposal being put forward here is for making a system that currently exists more responsive to the diversity of needs within the whole of the UK. This does not mean dispensing with UK

wide energy planning. There needs to still be a strong level of UK wide system integration and this needs to be planned at a UK and even wider NW Europe level with the increasing interconnectivity of the UK. In essence therefore this is about the re-deployment of existing resources rather than the creation of new resources.

This plan should be built with significant and valued input from the bottom rather than purely from the top down.

- There are regional energy forums in many parts of the UK and especially in Scotland.
- There are strong trade associations that have shown their capacity and willingness to support UK and Scottish governments in exploring and devising better energy policies.
- There is also a need to get new voices into the energy discussion.

Advisors and officials need to understand the system they are planning and operating as well as the needs of the users. For too long energy policy has been based upon mythical averages and means that are purported to exist in middle northern England as a suitable benchmark for the whole of the UK when in fact the regional realities that exist across the UK each have characters that means that this average world is neither representative nor effective as a planning basis. The biggest barrier to any such transformation of the electrical energy planning system is the hold that vested interests have on the current energy systems. Political will and leadership is needed to break through such inertia.

In terms of legal barriers it is not believed that there is any legal barrier to the UK government seeking to reorganize its electrical energy policy making structures to better embrace the reality of today's and tomorrow's energy systems rather than persist with yesterdays outdated model.

**Financial costs and/or benefit:**

There should be no net cost from such a move. Indeed there should be short, medium and longer term cost savings from getting rid of outdated support mechanisms which waste money on yesterday's infrastructure.

It has been said that the UK needs to spend £100 billion to upgrade its energy systems. It is not a question of whether this money is spent it is a question of how this money is spent and who benefits from it, UK/local industry or international businesses

### 3. Better regulation of the transmission and distribution electricity grid - OFGEM

#### **Principles underpinning suggestion:**

Ofgem have the responsibility for regulating the UK electricity and gas industries under a set of guidelines issued by the Westminster government. A higher degree of accountability to the devolved administrations is required in order to reflect the diverse needs across the nation. Such a move would radically alter the basis for decision making by Ofgem and would enable the re-establishment of a flourishing and diverse renewable energy industry which would better serve the whole of the UK as well as Scotland and the island communities.

#### **Assessment of current situation:**

Ofgem's interpretation of its remit is too narrow, short term and localized in its focus. Ofgem's remit includes the need to support sustainability however this has been poorly implemented. As a result it pays lip service to industrial capacity building, regional diversity and de-carbonisation of energy supply thus focusing almost exclusively on short term cost reduction.

Ofgem has largely applied a 'one size fits all' approach to grid connections that is predicated upon outdated market management principles that value short term cost to the consumer above all other considerations.

Despite repeated representations from consumers, devolved administrations and others, over a number of years Ofgem has remained immune to change. Legislation passing through the UK parliament at present (Strategy & Policy Statement) provides some hope that this position is at last changing, however the opportunity of the Smith Commission presents needs to be grasped to ensure it is permanently embedded.

Ofgem's present approach to managing the UK grid system has been shown to be an abject failure many parts of Scotland, and particularly the Scottish islands. Ofgem has itself recognised the different needs and priorities that exist across the UK by establishing a zoned management scheme for managing transmission and supply issues. It has also at times peeled off the Scottish islands from wider UK considerations because they were considered not to fit the wider UK model. Unfortunately it has consistently acted against the interests of these peripheral areas. As a result the UK has now reached the perverse situation where it is prioritising inter-connectors to neighbouring countries and supporting their energy generation businesses rather than supporting the improved connectivity of all parts of the UK and supporting UK based businesses and communities.

#### **Advantages to Scotland and the UK:**

The advantages of broadening Ofgem's remit to include the energy, social, economic and sustainability priorities of Scotland would be:

- It would further bolster the moves made by Westminster to ensure that Ofgem is responding to today's and tomorrow's priorities rather than yesterday's problems
- Broader based and more flexible decision making by Ofgem would stimulate more investment in the UK economy rather than that of our neighbouring energy supply countries
- Making Ofgem more responsive to a broader set of objectives would help to secure Scotland and the UK's leadership position in developing renewable energy and particularly marine energy

#### **Disadvantages to Scotland and the UK:**

There are no long or medium term disadvantages of making such a change to Ofgem's remit and accountability. There would be some consequences which may disadvantage certain incumbent

players in the energy market but it would provide an economic and opportunity stimulus to many more and many new players in the energy market.

There may also be a small energy price consequence from the adoption of a more progressive approach to energy market and infrastructure management. Any such increase would however be more than offset in the long and medium term as well as possibly in the short term by increased resilience in the energy market place to hydrocarbon price volatility and energy security issues.

**Practical and/or legal barriers:**

There are no known legal or practical barrier to such a move.

**Financial costs and/or benefit:**

Ofgem already have a Scotland office which could take on the new responsibilities envisaged with suitable liaison with the London based team

#### 4. Abolition of The Crown Estate.

##### **Principles underpinning suggestion:**

The Crown Estate is an archaic organisation that provides a poor service from an extremely high cost base. There is nothing that the Crown Estate usefully does that could not be accomplished by other less costly means. The Crown Estate has shown a consistent and enduring unwillingness and inability to engage meaningfully and effectively with the industry sectors which it influences, the communities who's waters it manages and the regulatory organisations with whom it should co-operate and defer to.

##### **Assessment of current situation:**

The Crown Estate has consistently demonstrated its inability to engage with, consult with and listen to the communities and sea users with whom it interacts. It has also shown a woeful lack of judgment in how it has managed the coastal marine estate over an extended period. A decade or so ago this led to it being stripped of its control of fish farm developments and that control being handed to local authorities.

The time has come for the full marine responsibilities of the Crown Estate to be transferred to local authority or Marine Scotland control. Doing so would help to streamline and localize decision making about marine spatial planning and marine industrial development. The example of The Crown Estate's mismanagement of its claimed assets can be seen in debacle that has taken place in Orkney over the last 8 years with regards to wave and tidal energy.

The approach taken by The Crown Estate to date has:

- Driven away overseas investment
- Closed off further access to the waters around Orkney and Caithness to any further technology developers
- Alienated the fishing community
- Been obstructive to lease option holders
- Allowed a "land-grab" of the seabed to take place
- Failed to apply the 'use it or lose it' commitment
- Failed to support local industry and research institutes
- Wasted money on spurious projects that are of little or no value to the permitting of developments.

As landlord the Crown Estate intends to levy a charge upon the marine activities. If successful then these activities will indeed generate revenue and the value for this should continue to be secured for the State. Whether this is best accomplished through tax on the site developer, or through accounting for the power delivered ashore can be dealt with in due course. The point being that there are other mechanisms by which the perceived 'value' of the endeavour is secured by the community, but without the present overhead.

##### **Advantages to Scotland and the UK:**

- By making the management of the marine and coastal assets of the country more accountable to local scrutiny better outcomes will arise. By removing the marine estate management responsibilities from The Crown Estate the quality, cost effectiveness and responsiveness of such management can be more easily improved and controlled
- The management of the marine estate will be more understandable to overseas investors attracting more inward investment to the UK
- The levels of co-ordination, collaboration and communication about marine management issues will increase

- There will be opportunities for any revenues raised by the marine estate to be more appropriately used

**Disadvantages to Scotland and the UK:**

There will be none

**Practical and/or legal barriers:**

None

**Financial costs and/or benefit:**

This should be a cost beneficial move

**End of submission.**