House of Commons

Scottish Affairs Committee

The renewable energy sector in Scotland: Government Response to the Committee's First Report of Session 2016–17

Second Special Report of Session 2016–17

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The Scottish Affairs Committee

The Scottish Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Scotland Office (including (i) relations with the Scottish Parliament and (ii) administration and expenditure of the offices of the Advocate General for Scotland (but excluding individual cases and advice given within government by the Advocate General)).

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The following Members were also members of the Committee during the Parliament: Mr David Anderson (*Labour, Blaydon*) and Kirsty Blackman (*Scottish National Party, Aberdeen North*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website and in print by Order of the House. Evidence relating to this report is published on the inquiry page of the Committee's website.

Committee staff

The current staff of the Committee are Jyoti Chandola (Clerk), Peter Stam (Second Clerk), Edward Faulkner (Committee Specialist), Pansy Barrett (Senior Committee Assistant), Annabel Russell (Committee Assistant), Jake Barker (Social Media Assistant) and George Perry (Media Officer).

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Second Special Report

The Scottish Affairs Committee published its First Report of Session 2016–17, *The renewable energy sector in Scotland*, HC 83, on 25 July 2016. The Government response to the Report was received on 10 October 2016, and is published as an appendix to this Report.

Appendix: Government response

Introduction

Renewable energy is a vital part of the UK energy mix and the UK Government recognises the central role Scottish renewables play in contributing to developing and maintaining a thriving UK renewables sector. The Government welcomes the Committee's recognition of the successes of the renewables industry in Scotland and the major impact UK Government policy has had in supporting growth of the sector.

Because of these successes and the relative size of the renewables sector in Scotland, we recognise that the changes in support for renewable technologies have raised concerns about the impact on the industry. However, it was necessary for the Government to take action in the light of the unexpectedly rapid growth in renewables deployment which contributed to a significant forecast overspend under the Levy Control Framework. These costs are ultimately borne by all consumers and there is an onus on Government to strike the right balance between supporting new technologies and being tough on subsides to keep bills as low as possible.

The UK Government remains firmly committed to the renewables industry across the UK and it is important to note that Scotland has benefitted proportionately more than the rest of the UK under existing policies and will continue to benefit under future investment in energy and energy efficiency, for example:

- Scotland, where around 8% of the UK population lives, received 24% of the Renewable Obligation payments in 2014/15.
- In the previous allocation rounds Scottish projects won 11 from the 25 Contracts for Difference (CFDs).
- Scotland is a substantial beneficiary of the Renewable Heat Incentive with approximately 20% of the capacity of accredited installations up to the end of April 2016.

Affordability is key to decarbonisation and UK industry. The costs of many forms of renewable energy are falling. For example, the costs of ground mounted solar PV more than halved between 2010 and 2015, according to Bloomberg New Energy Finance,[1] and the costs of generating electricity from offshore wind farms has also fallen dramatically, as evidenced in the UK[2] and more recently from the tender results in other European

1 BNEF, Q1 2016 PV Market Outlook

2 Cost Reduction Monitoring Framework 2015 (March 2016),Catapult, Offshore Renewable Energy: https://ore.catapult.org.uk/our-knowledge-areas/knowledge-standards/knowledge-standards-projects/cost-reduction-monitoring-framework/

markets. Mature technologies, such as onshore wind and solar PV, are now nearing the point where they could deploy without subsidy, with a number of developers exploring how they might achieve this.[3] As costs continue to fall, it is right that we should scale support back from mature sectors, so that support is focused where it is most needed to meet our decarbonisation and wider energy goals.

The Government's commitment to renewables is further evidenced by the Budget announcement earlier this year. We set out a clear plan for the future with three more competitive CFD auctions this Parliament for less established technologies. The three auctions will offer up to £730 million of annual support over 15 years, including £290 million of annual support available for the first auction. We expect to make an announcement on this shortly.

Recommendation 1

We concur with the Energy and Climate Change Committee's recommendation that the Department of Energy and Climate Change should develop and publish a structured response plan, setting out how any future projected overspend of the Levy Control Framework would be dealt with. We also recommend that the Government establish procedures for the communication of any future projected overspend, and also the Government's response to that overspend. This should be developed with a view to ensuring the renewables sector is as well-informed as it can be as soon as possible, and that it is transparent how the Government has come to its decisions. (Paragraph 40)

The Government is committed to transparency in in its decision making and actions taken to control Levy Control Framework (LCF) costs. The cost control measures introduced in demand-led schemes, Renewables Obligations (RO) and Feed-in Tariffs (FITs), in 2015 were clearly communicated to industry, stakeholders and Parliament as part of the Energy Bills debates and the relevant consultations.

LCF Projections are subject to a great deal of uncertainty which is factored into our cost scenarios. On this basis, any scenario showing projected expenditure over the budget cap may be as a result of a number of different variables. It would be counter-productive to prescribe a specific plan of control measures without knowing the exact factors that will contribute to this overspend. There is an agreement in place with HMT that a plan of action will be agreed in the event of a projected overspend.[4] However, any plan will clearly need to be designed in the light of the circumstances pertaining at the time.

With the transition away from demand-led schemes and the shift to CFDs allocated through auctions, we are moving towards a system where control is more proactive (setting a budget for the auction) than reactive (amending schemes in response to deployment information) which makes the design of a structured response plan less relevant for the purposes of cost control. Specifically under CFDs, the government can choose how much money to

3 Good Energy promises UK's first subsidy-free wind farm (March 2016), The Guardian: https://www.theguardian.com/environment/2016/mar/02/good-energy-promises-uks-first-subsidy-free-windfarm

Lightsource Connects 23 New Ground-Mount Solar Sites in One Month, Lightsource: http://www.lightsource-re.co.uk/news/2016/01/lightsource-connects-23-new-ground-mount-solar-sites-in-one-month/

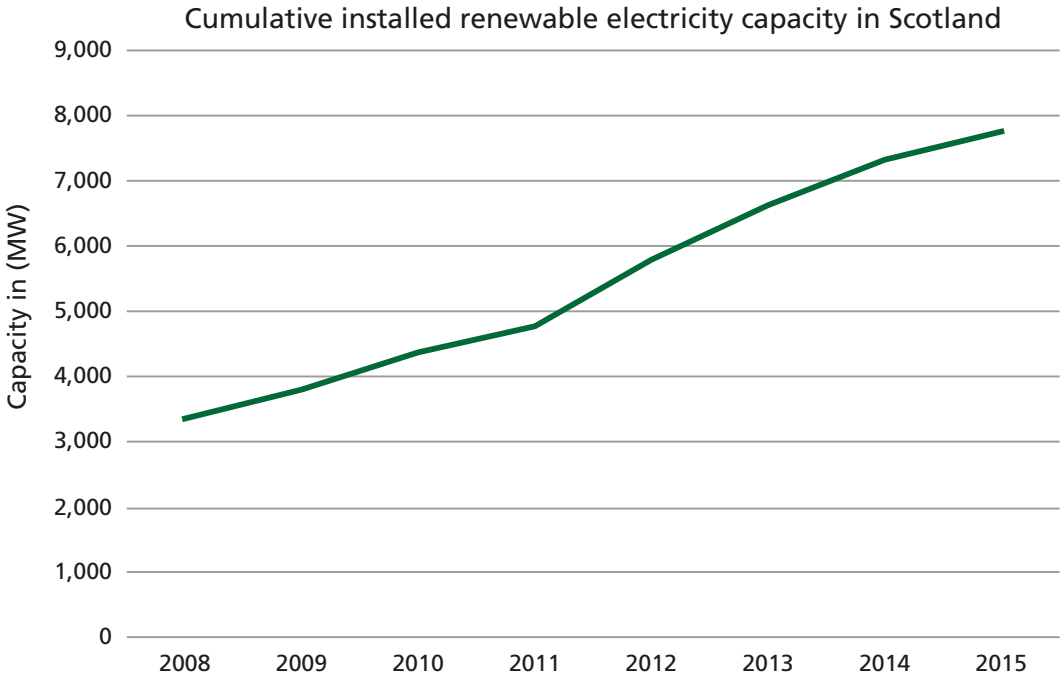
4 http://webarchive.nationalarchives.gov.uk/20130129110402/http:/www.hm-treasury.gov.uk/d/control_framework_decc250311.pdf

allocate to auctions in each round, and whether or not to allocate bilaterally-negotiated CFDs. In short, spending risks related to uncontrolled deployment is not an issue under a CFD system, though some other cost risks remain—such as the impact of load factors.

Recommendation 2

We recommend that the Government include in its response to this Report an assessment of the impact of recent policy changes on the renewable sector in Scotland, and that sector's prospects for future growth, as compared to other parts of the UK. (Paragraph 48)

The deployment of renewables in Scotland continues to rise, driven by the support received as a result of UK government policies. According to BEIS' latest quarterly energy trends, set out in the chart below, total deployment of renewables in Scotland stood at over 7.7GW in 2015,[5] a rise of six per cent on 2014 and of 57% compared with 2008. Scotland's total renewable electricity capacity accounts for around a quarter of total UK capacity in 2015 (30.5GW).



Looking forward, we expect significant further deployment in Scotland over the coming years. The majority of onshore wind projects that qualified for the Renewables Obligation early closure grace period are expected be in Scotland, as are 10 of the 15 onshore wind projects that were successfully allocated a CFD. The 588MW Beatrice offshore wind project in the Outer Moray Firth will begin offshore construction in 2017[6] and the 92.4MW European Offshore Wind Deployment Centre off Aberdeenshire is expected to be operational in 2018.[7] There is also a significant pipeline of projects—including 1,116MW of offshore wind[8]—which have planning consent and can deploy subject to their success in any future CFD auction.

5 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524695/Energy_Trends_March_2016.pdf
6 http://www.offshorewindscotland.org.uk/news-events/2016/may/green-light-for-26bn-beatrice-offshore-wind-farm/
7 https://corporate.vattenfall.co.uk/projects/wind-energy-projects/european-offshore-wind-deployment-centre/
8 http://www.offshorewindscotland.org.uk/case-studies/moray-firth-offshore-renewables-limited-morl/

Recommendation 3

We recommend that the Government review its decision to bar onshore wind schemes from accessing subsidies, and explain in its response to this Report how its decision to withdraw support for onshore wind, one of the cheapest forms of renewable energy, tallies with its commitment to keep down the costs of supporting renewable electricity. (Paragraph 56)

The Government is committed to combatting climate change, but we have a responsibility to manage our support schemes for renewable energy to ensure value for money for consumers. The Electricity Market Reform Delivery Plan, published in December 2013[9] set out indicative ranges for technologies necessary to meet the UK's target of 15% renewable energy by 2020.[10] We expect this to include over 30% renewable electricity. For onshore wind this was 11 to 13GW in 2020.[11] Our analysis indicated there was already enough onshore wind in the pipeline to meet this range. It was appropriate, in accordance with the Government's manifesto commitment, to curtail further deployment of onshore wind, balancing the interests of onshore wind developers with those of the wider public. Without action, there was a risk of deploying beyond this range, which would add more costs to consumer bills.

When the proposals to close the Renewables Obligation early to new onshore wind were announced on 18 June 2015, industry was invited to give feedback This included holding stakeholder engagement events across Great Britain, gathering views from hundreds of stakeholders, including investors and developers. This feedback was taken into account in shaping the final policy, particularly with regard to the provision of grace periods, which extend the closure date in certain situations. The implementing legislation was also subject to extensive scrutiny in the UK Parliament.

Recommendation 4

The Government should also end uncertainty for the sector by saying whether onshore wind will be eligible for future rounds of Contracts for Difference, and set out its view on whether a "market stabilisation" mechanism for onshore wind could be introduced. (Paragraph 57)

A number of stakeholders have suggested the concept of a market stabilising CFDs for Pot 1[12] technologies and have had discussions with officials on this as an option. The Government is considering possible options and will set out its plans for Pot 1 in due course.

9 The Electricity Market Reform Delivery Plan: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/268221/181213_2013_EMR_Delivery_Plan_FINAL.pdf

10 Ibid, (p39)

11 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48128/2167-uk-renewable-energy-roadmap.pdf (p30)

12 Pot 1 consists of established technologies, such as onshore wind and solar.

Recommendation 5

Although the Government has finally indicated that the next round of Contracts for Difference will be held in the last three months of 2016, there remain a number of important details to be confirmed. It is essential that the Government set out, at the earliest possible opportunity, the full details for the next round of Contracts for Difference. This should include the dates of the auction, eligible technologies and strike prices. The Government should indicate the timing of the remaining auctions due to take place this Parliament, ahead of providing more detailed information regarding funding levels and which technologies will be eligible for contracts. (Paragraph 61)

We have noted the Committee's recommendation. The Government has already announced its intention to hold three CFD auctions for less established technologies this Parliament. In total these auctions will offer up to £730 million of annual support over 15 years, including £290 million of annual support available for the next auction. This includes £290 million of annual support for the next round. We expect to make an announcement shortly which will include details about strike prices and auction parameters for the next round. Details about the future rounds will be announced in due course.

Recommendation 6

We recommend that, to complement the provisions of the Scotland Act 2016, the UK Government put in place a clear process for consulting the Scottish Government on the design of, or amendment to, renewables incentives. We expect to see details of this process in the Government's response, and will monitor how it works practice. (Paragraph 73)

In accordance with the principles and guidance on consultation set out under the Memorandum of Understanding[13] between the UK Government and the Devolved Administrations, the UK Government already actively consults on the development and design of renewables polices with the Scottish Government and there is also already an existing obligation to consult on Contracts for Difference legislation.

The Scotland Act now provides for a formal consultative role for the Scottish Government in designing renewable incentive schemes that will apply in Scotland. In implementing this we will continue to ensure that the Scottish Government is consulted on the design of new incentives to support renewable electricity generation that will apply in Scotland; or the redesign of existing schemes (i.e. the Feed-in Tariffs, the Renewables Obligation and the Contracts for Difference scheme) as they relate to Scotland.

The form and time of consultation may vary depending on specific proposals

13 https://www.gov.uk/government/publications/devolution-memorandum-of-understanding-and-supplementary-agreement

Recommendation 7

Transmission charging has been a source of discontent for Scottish electricity generators for many years, and particularly for renewable generators which are often located in remote areas and pay significantly higher transmission charges. We endorse the Energy and Climate Change Committee's recommendation that Ofgem analyse the costs and benefits of levelling connection costs across Great Britain, and look forward to seeing their response. (Paragraph 81)

As with other types of network charge, Great Britain's transmission charging regime is governed by the principle that the user pays depending on their use. In other words, the costs of operating and maintaining the system are met by those who benefit from it: generators and demand customers. This cost reflective approach helps to ensure the efficient use of the transmission network and keep costs down for all British bill payers. Moving to a level charge across Great Britain would remove this locational price signal and could increase overall costs, as developers would no longer be exposed to the full costs.

The higher transmission charges for generators in certain areas of the country reflect the actual costs they impose on the transmission network by needing to transport electricity further to demand centres. Conversely, demand customers in generation exporting areas pay lower transmission charges. For Scotland, this means that transmission charges incurred by generators are at the higher end of the spectrum as they are further from demand centres in the South, but demand customers in Scotland benefit from lower transmission charges than elsewhere.

The Committee notes that around 60% of the UK's onshore wind capacity is located in Scotland, and there are over 15 GW of renewable[14] projects currently contracted with National Grid to connect in Scotland within the next decade. This shows that transmission charges are not deterring renewable generators from connecting in Scotland. Indeed, many renewable generators in Scotland are benefitting from a recent change to the transmission charging regime—known as 'Project Transmit'—which was introduced by Ofgem in April 2016. It means that transmission charges now take account of the actual load which a generator places on the system, meaning a reduction in charges for intermittent generators such as wind farms.

The Energy and Climate Change Committee report on low carbon networks noted that, in addition to ongoing network charges, generators pay costs for connecting to the network which vary by location. The Committee recognised that locational connection-cost differences tend to be higher for distribution than transmission connections. The Government believes it is important that customers pay a fair price for connecting to the electricity network. There are a number of locational factors which affect connection costs such as available network capacity, whether undergrounding is required (e.g. in urban areas), and distance of the customer from the network. This is consistent with the 'user pays' principle, and moving away from this approach risks an overall cost increase for the reasons noted above.

14 http://www2.nationalgrid.com/UK/Services/Electricity-connections/Industry-products/TEC-Register/

Recommendation 8

We recommend that the UK Government include Remote Island technology in the list of less established technologies which will be eligible to bid for funding in the next round of Contracts for Difference. Strike prices for this category should be set at a rate which will enable sufficient deployment to allow for improved transmission infrastructure to be installed between the Scottish Islands and the mainland. (Paragraph 88)

We have noted the Committee's recommendation. The Government has not yet taken a decision on the technologies to be included in the next CFD Allocation Round. We expect to make an announcement shortly.

Recommendation 9

We recommend that the UK Government, as part of its response to the Fifth Carbon Budget, work with the Scottish Government to produce a long-term strategy for the future of Great Britain's electricity supply, and detail how this will be achieved. This should cover:

- ***A plan for future energy mix which is compatible with meeting carbon emission targets.***
- ***An indication of support for renewable electricity generators, and which technologies will be supported.***
- ***The role of Carbon Capture and Storage (CCS) in mitigating the carbon emissions of gas power plants***
- ***How the deployment of electricity storage will be encouraged.***
- ***The role of demand side response in reducing electricity demand. (Paragraph 126)***

The UK Government has agreed with the Committee on Climate Change's (CCC) recommendation to set the level of the fifth carbon budget (2028–2032) at a 57%[15] reduction on a 1990 baseline. We are now working on our new emissions reduction plan which will provide policy direction and pathways for the transition over both the fourth and fifth carbon budgets. This will include consideration of future energy mixes, of electricity supply and of the role different technologies could play however it is too early to give specifics. The Devolved Administrations, including the Scottish Government, have been closely involved in the setting of the fifth carbon budget, and we are continuing to work with them on our emissions reduction plan. The Devolved Administrations account for 22%[16] of the UK emissions and are committed to the UK's long term target to reducing emissions by at least 80% by 2050, on a 1990 baseline.[17]

15 https://www.theccc.org.uk/2016/06/30/ccc-welcomes-government-backing-for-fifth-carbon-budget-and-continued-ambition-to-meet-2050-target/

16 https://www.theccc.org.uk/wp-content/uploads/2015/11/Sectoral-scenarios-for-the-fifth-carbon-budget-Committee-on-Climate-Change.pdf (p28)

17 https://www.theccc.org.uk/tackling-climate-change/reducing-carbon-emissions/carbon-budgets-and-targets/

It should be noted that energy policy, including support for low carbon technologies and CCS, is a reserved matter and the responsibility of the UK Government. The Government strongly believes that maintaining a fully integrated single energy market for Great Britain benefits all consumers in England, Wales and Scotland In particular it ensures continuing security of supply and promoting competition in generation.

Gas generation is likely to continue to play an important role in our future electricity mix; new gas capacity can help maintain energy security as older gas capacity is retired and as unabated coal stations close. The current regulatory regime requires that new gas plants above 300 MWe are constructed as "carbon capture ready" to enable them to be fitted with CCS as necessary. The Government considers that CCS could play a potentially important role in the long-term decarbonisation of the UK's economy provided that costs can be reduced. It will set out a refreshed approach to CCS in due course, informed by the findings and recommendations of Lord Oxburgh's CCS Advisory Group.

The Government recognises the potential for both electricity storage and demand-side response (DSR) to help us use energy more flexibly and decarbonise our energy system cost effectively, alongside other measures such as interconnection. These opportunities are already being realised. For example, we welcome the System Operator's new Enhanced Frequency Response[18] service which will lead to the deployment of 200MW commercial storage projects by 2018, helping to reduce system operation costs. The Government has developed the Transitional Arrangements auctions, within the Capacity Market, which are reserved exclusively for this novel but attractive sector.

The Government is putting in place the key enablers for DSR, with a manifesto commitment to ensure that every home and business in the country has a smart meter by the end of 2020, delivered as cost effectively as possible. Smart meters are a key building block to enable DSR. The Government is additionally working closely with Ofgem, to enable elective half-hourly settlement by early 2017, and to take a decision on whether to move to mandatory half-hourly settlement by the first half of 2018. Smart meters and half-hourly settlement together make more innovative smart tariffs, such as dynamic tariffs, possible. Trials, such as the Low Carbon London trial,[19] have shown that such tariffs can deliver bill savings.

Innovation funding is an important way to help encourage the development and deployment of storage and DSR. The previous Chancellor allocated £50 million innovation funding to smart technologies, including both DSR and storage, in the 2016 Budget.[20]

The Government is working closely with stakeholders to identify and understand the best ways to address policy and regulatory barriers to storage and DSR—these issues will form an important part of our forthcoming Call for Evidence on a smart, flexible, energy system, which we have developed jointly with Ofgem.

Minister: Baroness Neville-Rolfe – Minister Of State for Energy And Intellectual Property

October 2016

18 http://www2.nationalgrid.com/Enhanced-Frequency-Response.aspx
19 http://innovation.ukpowernetworks.co.uk/innovation/en/Projects/tier-2-projects/Low-Carbon-London-(LCL)/
20 https://www.gov.uk/government/publications/budget-2016-documents/budget-2016