



Response to OFGEM's Project Transmit Consultation on Transmission Charging

14 February 2012

Friends of the Earth Scotland

Friends of the Earth Scotland is an independent Scottish charity with a network of thousands of supporters, and active local groups across Scotland. We work closely with our sister organisation Friends of the Earth England, Wales and Northern Ireland. We are part of Friends of the Earth International, the largest grassroots environmental network in the world, uniting over 2 million supporters, 77 national member groups, and some 5,000 local activist groups - covering every continent.

Project Transmit

Friends of the Earth Scotland is pleased that this review is being undertaken and broadly supports the three broad aims: (i) deployment of low carbon generation, (ii) security of supply, and (iii) overall cost. Having said this, we have concerns about the analysis behind the consultation, which we note below.

i) Low Carbon Generation

As the UK Committee on Climate Change made clear in its fourth carbon budget report, we need to achieve a carbon intensity level of 50g/kWh by 2030. While we acknowledge that 100g/kWh was assumed by DECC in its modelling for EMR, given the Government has since accepted the fourth carbon budget, we believe 50g/kWh, not 100g/kWh, is the level for which the modelling should be set.

We also have concerns about the assumed 15% reduction in gas prices. A number of industry players and commentators, including British Gas, have dismissed talk of a 'gas glut', pointing to rising global demand and the technical difficulties of extracting shale gas.¹ Given the UK's growing reliance on imports as UK gas production dwindles² and the uncertainties over global gas prices, it would appear imprudent to model future generation mix on the basis of a lower gas price.

ii) Energy Security

Energy security is not only about diversity of supply. It is also about independence from reliance on speculative international commodity markets, from highly centralised energy infrastructure, and from energy sources that commit future generations to ongoing risk. The Redpoint analysis, based solely on a 'capacity mechanism' doesn't provide this. Far greater weight should be given to demand-side responses, electricity storage and improved transmission and interconnection. Use of this wider range of measures to contribute to security of supply offers a number of benefits over conventional back up capacity. For example, the partial electrification of heat and transport sectors could contribute significantly to overall security of the system through increased deferrable demand and heat storage, as well as dramatically cutting emissions and making overall 'triple fuel bills' cheaper for consumers.³ While we acknowledge such proposals haven't

¹ <http://www.guardian.co.uk/business/2011/feb/08/bg-production-targets-profits>

² <https://www.og.decc.gov.uk/information/statistics.htm>

³ See <http://www.foe-scotland.org/power-secured>

been developed in the EMR proposals to date, for the purposes of comparison we believe potential demand-side measures should have been modelled and would have been likely to lead to a more secure system if security impacts such as fossil fuel price fluctuations were taken into account.

iii) Costs

While we acknowledge costs are not insignificant, investment in the grid is one of the cheapest ways of ensuring a secure energy system. The European Climate Foundation estimates that in order to remain 'on track' to meet member states' renewables commitments for 2020, and then meet desired decarbonisation outcomes by 2030, investment in low carbon generation across Europe will need to total €1,781 billion in the period up to 2030. Crucially however, of this investment only €114 billion (6.4%) is for transmission expansion with the rest being required for generation and back-up. These numbers lead ECF to conclude:

“Upgrading the grid infrastructure is, however, the most cost-effective way to keep a power system in transition secure and reliable. Less transmission build-out will lead to less optimal use of RES and additional need for back-up capacity”.⁴

In this context, and when set alongside the cost of certain EMR proposals (such as the carbon floor price and 'contract for difference' subsidies that existing nuclear operators are set to gain) we believe the extra cost that a variant to the socialised option may incur would be money well spent.

Conclusion

Our overriding concern remains that that the Review should result in a transmission charging system which fairly recognises the fundamental differences between sustainable renewable forms of generation whose location is determined, or at least heavily influenced by the location of the resource (notably wind, wave and tidal) and forms of generation reliant on widely traded commodities, and thus whose least environmentally damaging location is significantly determined by their proximity to markets (gas, coal, nuclear). In light of the analysis in the consultation document, we continue to believe a socialised system for renewables, with a locational element for thermal generation, should be devised, although it is clear that is not the intention of the UK Government or any of the proposals contained in the consultation document.

We acknowledge that the ICPR proposal would benefit onshore renewables in Scotland over the current regime. However, there are still serious concerns about the costs to offshore renewables and those generated from the islands. Scottish Renewables has raised these concerns and noted the substantial consumer benefits a revised regime could have.⁵ As a minimum therefore OFGEM must address these concerns.

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⁴ European Climate Foundation, 'Power Perspectives' (2011) pp 9-11, available online at: <http://www.roadmap2050.eu/pp2030>

⁵ Scottish Renewables presentation, February 2012, available online at:

http://www.scottishrenewables.com/static/uploads/publications/scottish_renewables_ofgem_stakeholder_event.pdf