

6 October 2010

Mr Sam Cope
Ofgem
9 Millbank
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Dear Mr Cope

Offshore Electricity Generation: Further Consultation on the Enduring Regulatory Regime

The Scottish Council for Development and Industry (SCDI) is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trades unions, local authorities, educational institutions, voluntary organisations and faith groups. SCDI's policy priorities are: an outward and enterprising nation; maximising Scotland's assets; and realising the potential of Scotland's people.

Scotland and the UK have the greatest potential in Europe for offshore renewable electricity generation. Recent announcements by the UK and Scottish Governments and industry indicate their commitment to maximising the delivery of offshore wind by 2020.

The UK Government has asked the Committee on Climate Change for advice on the scope for a more ambitious target for renewables. In an 'Accelerated growth' scenario, 32GW of offshore wind would be possible in the UK by 2020 (National Grid suggests), 43% of renewable electricity generation. The Scottish Government has recently announced an increased target of 80% of Scotland's electricity consumption coming from renewable sources by 2020, based on developers completing the full 10.6GW of offshore wind capacity currently available for commissioning and 1.2GW of wave and tidal power. A report by GL Garrad Hassan for Scottish Renewables also suggested a 15GW 'High Renewables' Scenario (106% of Scotland's electricity consumption) by 2020.

Offshore transmission networks are key to these targets. SCDI believes that the regulatory regime for these should: facilitate development of an interconnected offshore grid which enables offshore energy projects to develop and deploy quickly enough to meet Government targets; minimise overall costs to consumers; maximise the contribution from Scotland's renewable electricity resources; and allow for European integration which realises the potential for the UK to export excess low carbon electricity.

SCDI has concerns that the planned Offshore Transmission Network Owners (OFTO) regime which was introduced in 2005, is no longer aligned with UK and EU policy on interconnection and integration of energy systems and energy markets, and the proposed tendering process would not deliver timely, co-ordinated investment in offshore transmission infrastructure at lowest costs for UK consumers. This would not support policy, as set out in the first *Annual Energy Statement*, "to drive faster deployment through the decade" and coordinate networks "to ensure value for money for consumers."

SCDI, therefore, welcomes this consultation by Ofgem and the Department of Energy and Climate Change (DECC) on an Enduring Regulatory Regime for Offshore Electricity Transmission. SCDI believes that this represents an opportunity to reconsider the appropriateness of the planned radial offshore solution against a fully integrated solution. SCDI's comments focus on the development of this integrated and co-ordinated approach to offshore network development. Regarding questions on OFTO, SCDI supports the view that development and timely implementation of new arrangements must continue.

SCDI is aware of detailed analysis which has found multiple benefits of an integrated solution. Development of an interconnected, standardised offshore grid would result in investment cost savings with reduced offshore HVDC and AC cables and offshore platforms, a more resilient and reliable network, reduced need for planning consents, more focused R&D and reduced pressure on the supply chain. This would enable offshore energy projects to develop and deploy quickly enough to meet the UK's targets.

Significant investment and planning will be required for the onshore grid to be able to support the development of the offshore (as well as the onshore) wind markets. But a smaller offshore grid would mean fewer planning applications for landings and onshore lines and - at a time of budget constraints - reduce the pressure on planning authorities and make it less confusing for communities to engage in the process. It would reduce the environmental impact and carbon footprint. Standardisation would give UK suppliers confidence that there is a sufficiently large market for them to develop technologies.

This better management and utilisation of valuable resources - with 20% less offshore assets and 75% less new onshore lines - would lead to approximately 25% potential savings for UK consumers, amounting to £8bn under an 'Accelerated growth' scenario. This would also bring significant maintenance and systems operation costs savings. In view of Ofgem's analysis that the cost of rewiring UK energy networks could add an average of £6 a year to consumer's bills over the next decade, this is especially important.

North to South power transfers from Scotland to England are expected to increase significantly as a result of onshore and offshore renewable energy development. GL Garrad Hassan has suggested that net electricity exports from Scotland as a percentage of production would be 42% (under a 'Low Renewables' Scenario) or 47% (under the 'High' one). An integrated solution to onshore and offshore networks would maximise the contribution to the UK's targets from Scotland's renewable electricity generation.

Beyond 2020, Scotland's Offshore Wind Industry Group has forecast that capacity development will continue at a rate of 2 to 3GW per year. The central scenario for 2050 is that installed offshore capacity could reach 68GW in Scotland, 40% of the UK total potential of 169GW. This level of capacity could generate around 7 times annual Scottish demand. The discounted net present value of electricity sales (to UK and EU) from offshore renewables in Scottish waters over the period 2010-2050 is estimated at £14 billion. The equivalent UK figure is £36 billion. By 2050 this could mean an annual value of 68GW of renewable electricity sales from Scotland of £24.8 billion. It is clearly,

therefore, in the interests of Scotland and the UK to put in place an Enduring Regulatory Regime which enables a North Sea grid through which to export excess power. Onshore transmission arrangements extend offshore in all other member states. An integrated solution for the UK would, therefore, be consistent with greater European integration.

Investment in the low carbon economy and generating external demand for Scottish and UK products are vital for economic recovery and long-term growth. SCDI believes that an enduring, integrated solution for Offshore Electricity Generation could best support both priorities and maximise our renewable energy assets for Scotland, the UK and Europe. Further development work will clearly need to be undertaken on this proposal and SCDI urges Ofgem and DECC to consider, in consultation with offshore wind developers and all stakeholders, whether the timelines and costs involved in this approach would better support their shared commitment to maximising offshore wind delivery.

Yours sincerely

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cc. Paul Hawker, Department of Energy and Climate Change