

Update Helping realise the potential of renewables

The Government has put the UK on the path to reducing CO₂ emissions by 60 per cent by 2050.

Ofgem is committed to working with the Department of Trade and Industry and the Scottish Executive to remove, where appropriate, any regulatory barriers to the growth of renewable energy...

...while at the same time protecting the interests of consumers by ensuring that investment is efficient and only made where it is needed.

Ofgem's response to the renewables challenge

Ofgem is engaged fully in the challenge to accommodate the growth in renewable generation. It is for Ofgem to ensure that:

- regulatory arrangements do not delay the development of renewable generation
- there is sufficient investment in both the transmission and distribution networks, and
- renewable generators have access to a competitive wholesale electricity market.

Ofgem is responding to this renewables challenge through four key projects:

- Transmission investment for renewable generation (Scotland)
- British-wide trading and transmission arrangements
- Distribution price control review
- Offshore transmission regulatory arrangements

The renewables challenge in Scotland

The key Ofgem actions supporting the growth in renewable generation in Scotland, where the majority connect at the higher voltage transmission system, are transmission investment for renewable generation and the GB-wide trading and transmission market.

Price controls that provide incentives for investment and determine the network charges that are ultimately paid by customers are set every five years. In the interests of better regulation and taking a consistent approach, Ofgem decided to align the price controls for all the transmission licensees (Scottish Power Transmission Limited (SPTL), Scottish Hydro-Electric Transmission Limited (SHETL), National Grid Electricity Transmission (NGET) and National Grid Gas). A review to set price controls for these companies between April 2007 and April 2012 is now underway and it will result in final proposals at the end of 2006. The proposals will seek to address the most effective way of ensuring that efficient transmission investment can be made to support the growth in renewable generation while protecting the interests of customers.

Transmission investment for renewable generation (TIRG)

Before aligning the price controls, Ofgem took steps in the middle of the Scottish transmission price control period to introduce a new mechanism to allow investment in the GB transmission system. This was done so that there was no delay to the growth of renewable generation in Scotland,

Issued in December 2004, the proposals:

- allow for up to £560 million investment in the transmission system for Scotland and the North of England
- leave scope for further investment in the future where the case can be made, and
- remove the regulatory barriers to unlocking the potential of renewable generation in Scotland.

TIRG involves upgrades to 10 sections of the GB transmission system and Ofgem has now fully approved four of these projects. Interim funding has also been authorised for the NE Ring and Heysham Ring projects which are awaiting full assessments.

How does the mechanism work?

For projects where there is a clear justification in terms of likely costs and benefits, the investment mechanism will provide funding for efficient project costs - Beaulieu-Denny and Sloy area reinforcements would fall into this category.

Where investment is likely to be efficient, but there remain some uncertainties, the transmission companies can press ahead with pre-construction work - the England-Scotland interconnectors and North East ring projects would fit this category.

Other projects could be funded as better information emerges on the costs and benefits, by a revenue driver incentive or by securing long-term charging arrangements with generators.

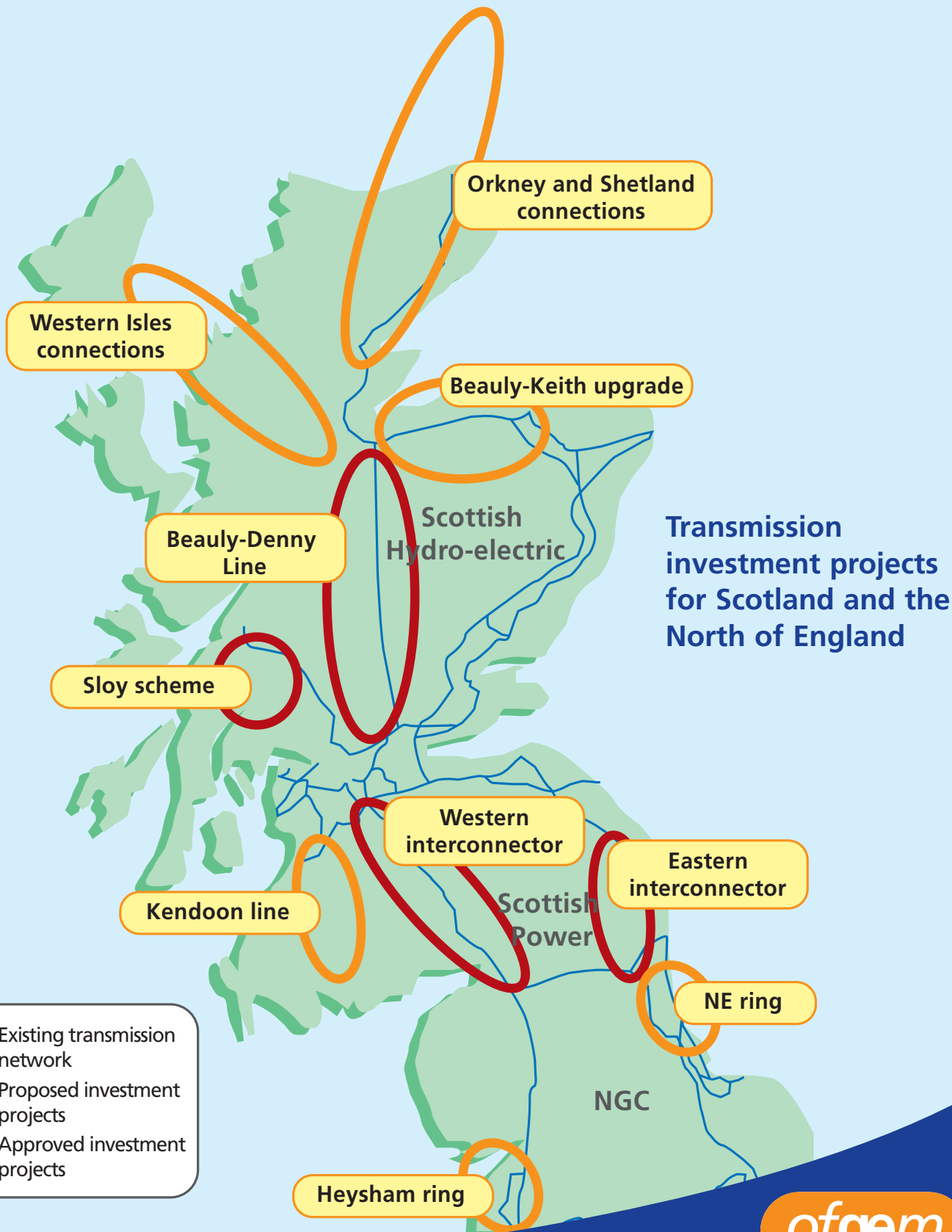
GB-wide trading and transmission arrangements

The single British market for the trading and transmission of electricity will help generators in Scotland, including renewable generators, by giving them access to a wider British market.

These arrangements have also changed the way the transmission system is managed and charged for. SPTL and SHETL retain ownership of the transmission systems in the south and north of Scotland respectively. However, NGET is now responsible for managing the operation of the GB transmission systems and for developing and implementing an approved transmission charging methodology.

The underlying principles of the new charging regime are to:

- help competition in electricity generation and supply markets to operate across Great Britain, and
- reflect the real cost of transmitting electricity.



The renewables challenge in England and Wales

It is not just in Scotland where Ofgem is responding to the growth in renewable generation. The electricity distribution price controls for 2005-2010 allow for investment in the lower voltage networks in England and Wales. They also contain several initiatives which support the growth in renewables, including:

- revised connection charging arrangements for generators
- improved incentives on distribution companies to respond quickly to requests from generators to connect to their networks and invest in a timely and efficient manner, and
- the Innovation Funding Incentive and Registered Power Zones, which will encourage the application of more innovative solutions to renewable connections.

Renewables offshore

The Government expects that offshore wind energy will provide a major contribution to the Government's renewable energy target.

- The development of offshore wind generation is likely to have significant implications for the transmission system and, in particular, the need for increased investment.
- Ofgem is working closely with the Department of Trade and Industry (DTI) to develop the regulatory and legislative framework to apply offshore. Ofgem has been working closely with the Department of Trade and Industry (DTI) to develop the regulatory and legislative framework which will apply offshore. The DTI will shortly make an announcement explaining how connections from offshore windfarms to the onshore electricity network will be funded and operated.
- Ofgem will work to ensure that the regulatory framework adopted enables efficient and timely investment while at the same time protect the interests of consumers.

Government targets

To put the UK on the path to reducing CO₂ emissions by 60 per cent by 2050, the Government has set the following targets and aspirations for renewable energy:

- 10 per cent of electricity from renewable sources by 2010, rising to 20 per cent by 2020.

The Scottish Executive has set separate targets for Scotland:

- 18 per cent of electricity from renewable sources by 2010, rising to 40 per cent by 2020.

These higher targets reflect the natural resources at Scotland's disposal and the potential for further development of renewable forms of energy.

Renewables Obligation

Ofgem administers a number of schemes which contribute towards the Government's climate change programme. One of the main schemes is the Renewables Obligation (RO) and the Renewables Obligation Scotland (ROS), which require licensed electricity suppliers to source an increasing portion of the electricity they sell from renewable sources.

Suppliers can demonstrate that they have met their obligations by presenting Ofgem with enough Renewables Obligation Certificates (ROCs) or by making payments into a dedicated buy-out fund to cover any shortfall in the presentation of sufficient ROCs. They can also use a combination of both these options to meet their obligations. Proceeds from the buy-out fund are paid back to suppliers in accordance with how many ROCs they have presented.

In 2004-2005 Ofgem:

- issued 10,870,929 ROCs
- collected and redistributed approximately £153m in buy-out payments, and
- accredited 179 renewable generators with an overall capacity of 587 MW

By the end of March 2005, Ofgem had accredited 788 generating stations under the RO or the ROS. These accredited stations represented 3,718 MW of capacity.

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