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Thank you for your letter dated 20 June, about Project Transmit and greenhouse gas emissions. I apologise for the delay in replying.

The Third Energy Package in the form of Directive 2009/72/EC clearly makes the fixing or approving of transmission charges and their methodologies a duty of Ofgem as the independent regulatory authority. In carrying out its duties under the Third Package, Ofgem must ensure compliance with other Directives. Government's role is in setting the high level policy objectives which Ofgem must deliver.

Ofgem specifically considered the issue of compliance with Article 16.7 and recital 63 of the Promotion of the Use of Energy from Renewable Sources Directive (2009/28/EC). Ofgem's opinion can be found at paragraphs 4.34 to 4.37 of the Project TransmiT conclusion document published at: http://www.ofgem.gov.uk/Networks/Trans/PT/Documents1/TransmiT%20SCR%20conclusion%20document.pdf.

This makes clear that both the existing cost reflective transmission charging regime and the Improved Investment Cost Related Pricing approach being developed following Project TransmiT are fully compliant with the Directive.

It is also worth pointing out that my Department notified GB as being compliant with article 16.7 of the Directive. The transposition note we sent to the Commission cited "Relevant requirements are placed on the holders of transmission licences in standard licence conditions C4, C5.5 and C7."

DECC’s published projections of greenhouse gas emissions and electricity generation were produced using the Department’s emissions projections model. This model projects demand for energy using a series of equations that relate energy demand to its key drivers such as GDP growth. The latest official projections of GDP, household numbers and fossil fuel prices are fed into the model together with the latest estimates of policy impacts.
In the last set of published projections (October 2011), the way in which electricity producers meet demand was projected using a model that in effect assumes providers know what future prices and demand will be and find the least cost method of meeting this demand under current policies. These projections do not take account of the government’s proposals for Electricity Market Reform (EMR) or of later projections for specific renewable technologies in the FITS consultation and RO banding review. The next set of updated projections are due to be published this Autumn.

Annex G to the October 2011 edition of the updated energy and emissions projections (http://www.decc.gov.uk/en/content/cms/about/ec_social_res/analyzer_projs/en_emis_proj/enemis_projs.aspx) presents the policy impacts that are included in the projections, this includes a total contribution of large and small scale renewable electricity of 43MtCO2e in 2020, and 51MtCO2e in 2030.

This scenario does not account for developments since October 2011, these are; (i) the impacts of policies to meet the 4th Carbon Budget (http://www.decc.gov.uk/en/content/cms/tackling/carbon_plan/carbon_plan.aspx); (ii) revised projections relating to the review of Feed-in-Tariffs (http://www.decc.gov.uk/en/content/cms/meeting_energy/renewable_enner/feedin_tariff/fits_review/fits_review.aspx); or (iii) the rebanding of the renewables obligation (http://www.decc.gov.uk/en/content/cms/meeting_energy/renewable_enner/renew_obs/renew_obs.aspx).

The model of electricity supply used for published projections does not explicitly model short term features of the electricity market such as start-up and part-load running. Plant efficiencies are adjusted to reflect historical outturn plant efficiencies. DECC is investigating the impact that renewables and other factors such as technological advances might have on future plant efficiencies. However, at present insufficient evidence is available to accurately project the size or direction of the overall impacts.

Yours,

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EDWARD DAVEY