SUBMISSION FROM SCOTTISH POWER

We welcome the opportunity to comment on the above report. ScottishPower is a major energy company with retail, networks and generation interests both in Scotland and in the rest of Great Britain and is part of the Iberdrola group, a major international utility and the world’s leading renewables developer.

We have focused our response to the elements of the RPP2 within the remit of the Economy, Energy and Tourism Committee, namely:

- Reducing energy demand and emissions, including the energy performance of existing non-domestic buildings
- Renewable energy – electricity and heat
- Interconnection and grid upgrades
- Transmission charges
- Fuel prices and fuel poverty

We recognise the responsibility of the political process to reach a conclusion on the speed and ambition of renewables and decarbonisation programmes, and to balance progress on these hugely important areas with the equally pressing concerns on affordability. Within the budget and policy framework that emerges from these considerations, it is our role to make the ambition a reality by delivering the necessary infrastructure and cost effective energy efficiency programmes. The infrastructure includes not only significant investments in renewable generation, but also the major investment in transmission and distribution infrastructure needed to convey the renewable power to customers. Indeed, such is the scale of the current plan that Iberdrola intends to undertake 42% of its global investment in the period 2012-2014 in the UK.

Reducing energy demand and emissions

We agree that ensuring the implementation of cost effective energy efficiency can play an important part both in ensuring affordability and allowing the transition to a decarbonised energy system. Since 2007 we have seen significant reductions in gas and electricity use, and whilst this is in large part due to the global financial crisis, it also reflects improvements in energy efficiency across domestic and industrial customers.

Government policies in this area, such as the Energy Company Obligation (ECO) and the Green Deal have the potential to help improve energy efficiency and so reduce demand. We are committed to delivering further energy efficiency measures under the ECO and believe that, if properly designed and administered in a cost effective way, supplier obligations can help reduce consumer bills. To this end, it is important that benchmark figures for consumption are updated every year to reflect the progress of insulation programmes, otherwise public debate may be focussed on bill figures that include the costs of these programmes but not the benefits.

Depending on consumer enthusiasm for the Green Deal and the ability to access low cost measures, it is possible that ECO will have higher costs than those projected by the UK Government. If such higher costs do emerge, it may be necessary to review ECO to ensure that it continues to operate cost effectively in consumers’ interests.
Predicting energy demand is never easy, but it is generally expected that over the medium to long term electricity demand is likely to increase – focused on some key applications – as a consequence of decarbonisation policies. Whilst the exact path of this growth trajectory is not yet certain, it is likely to become decoupled from emissions as the system is progressively decarbonised over the next two decades 2030.

Similarly, we cannot yet say with any accuracy what the precise trajectory of emissions will be for the traded sector, as various scenarios are still feasible. Delivering the desired outcomes from the Electricity Market Reform process – in particular the acceleration of large scale investment in low carbon generation – will go a long way to ensuring Scotland’s carbon emissions continue to decline.

Whilst considerable progress on both the electricity supply and demand side can be reasonably anticipated, we think that a 50g decarbonisation target for Scotland would only be practically and economically feasible by 2030 in the context of a single Great Britain power market with a higher overall carbon intensity. There is however a risk that a 50g target would lead to the closure of fossil fuelled stations in Scotland rather than the fitting of CCS and the Scottish Government may therefore wish to exercise caution in this area.

**Measures for assessing energy performance and energy efficiency of existing non domestic buildings**

We are supportive of the 2012 Energy Efficiency Directive and believe the Directive will have positive implications for Scotland. It is clear that significant investment will be required by public authorities and we understand this is likely to be stretching given the general financial climate and competing public expenditure requirements.

Loan schemes, the Non Domestic Green Deal and other initiatives are likely to make a positive contribution to freeing up the required investments. However these sources may not be enough and may need to be augmented to fully deliver the policy objective. In particular we suspect there may be a requirement for more detailed policies in this area, and possibly direct funding from Government to achieve the level of transformation required in the non domestic stock, particularly in the public sector.

We support the implementation of improved building standards where these are cost effective and we intend to aim for ambitious levels of energy efficiency in our new Glasgow headquarters building.

**Renewables – electricity and the promotion of the use of heat from renewable sources**

Scotland undoubtedly has vast renewable energy potential which can play a pivotal role in decarbonisation. We recognise the responsibility of the political process to reach a conclusion on the speed and ambition of renewables programmes, and to balance progress on this hugely important area with the equally pressing concerns on affordability. Within the budget and policy framework that emerges from these considerations, it is our role to make the ambition a reality by delivering the necessary infrastructure – both in terms of generation and networks.
Whilst significant progress is currently being made in terms of deployment rates, it will be important that there are clear policies from both the Scottish and UK Governments which will maintain investor confidence and the momentum within the industry to deliver new capacity at the pace required.

Progress in providing further clarity in the UK Government’s Electricity Market Reform proposals remains critical. We are supportive of the policy development in this area but there remains a great deal of detail to be resolved. For renewables, it will be important that the final design of the new arrangements is structured appropriately, and that the incentives are set at a level that continues to drive investment forward in a cost-effective manner. It is also essential that the UK Government sticks to the timeline for EMR delivery, particularly with regard to visibility of strike prices. Any delays could result in the requirement to extend the RO beyond 2017.

In terms of specific technologies we would highlight the following:

- **Onshore wind**: This is the lowest cost large scale renewables option and it is in consumers’ interests to maximise the contribution from appropriately located onshore wind. In terms of support under the Renewables Obligation, there is no evidence to suggest the need for a further banding review. Independent research by Oxera for ScottishPower indicates that the outlook for onshore wind has deteriorated since the original banding review and that any further reduction in support would result in reduced deployment of onshore wind, mainly in Scotland. Replacing this lost deployment with other renewable sources such as offshore wind would cost consumers more than the saving from lower banding.

- **Offshore wind**: This technology is more expensive than onshore wind, but potentially available in larger quantities. We recognise the need to drive down costs, but this will inevitably involve maintaining deployment at sufficient scale to achieve production and learning benefits. Policy certainty and stability will be fundamental in achieving this.

- **Marine**: The wave and tidal technologies are currently in their infancy and therefore very expensive. However, they have very considerable potential if they can be brought to a sufficient stage of development to achieve cost and reliability targets. Present support levels need to be set so as to gain sufficient deployment experience to make it possible to judge if they will be economic at scale. If marine renewables can be shown to be potentially cost effective, the next step will be to set a trajectory to reduce support to levels comparable with other technologies. We believe that capital grant support will also continue to be required in the near term for wave technologies.

- **Heat**: We are supportive of cost effective measures to use heat more efficiently and use renewable heat where possible. In that respect we continue to believe that Scotland should make the most from existing arrangements and incentives. We are supportive of developments in heat capture and are active in this area through, for example, our initiative in Glasgow. We will comment more fully once the Scottish Government’s Heat Generation Policy Statement has been issued later in 2013.
Interconnection and grid upgrades

We are pleased to note that Scotland is on track to meet the interim target by 2015 of 50% of Scotland’s demand being met from renewable electricity sources. This target, and the Scottish Government’s 2020 ambition to achieve renewable generation equivalent to 100% of Scotland’s electricity demand, are however only practically and economically feasible in the context of a single GB electricity market. That market is in turn critically dependent upon upgrading the electricity transmission and distribution infrastructure.

Our Energy Networks business is involved in major Transmission projects in Southern Scotland to make sure that new renewable electricity production can connect into the Scottish and UK markets. Delivery of these projects is vital and developments in mid Scotland, East Lothian, Ayrshire and Dumfries and Galloway will help open up new capacity in the electricity system. Our business is also taking the lead on major interconnection projects to the rest of the UK. Especially noteworthy is the HVDC interconnector that is to be constructed between Hunterston and North Wales. This is a project of major importance to the UK electricity system and, once completed will increase flow of more than 2,000MW – potentially allowing national grid access of to up to 6GW for Scottish renewable projects.

The Scottish Government have shown an impressive commitment to facilitating the development of infrastructure – through forward planning in skills development, facilitating planning discussions between relevant public authorities and in helping create the conditions for the necessary innovation and research. This commitment needs to be sustained in the next few years. We look forward to further engagement with Scottish Government in regard to the National Planning Framework III which should help provide the framework for spatial planning for major new infrastructure in Scotland. We understand the main issues report will be published next month and the Scottish Parliament will express a view on the NPF III later in 2013.

Transmission charges

ScottishPower are represented on the GB industry working group which is developing detailed proposals for changes to the current charging regime for using the GB transmission network (‘TransmiT’ or ‘CMP213’). The current regime is strongly locational with power stations facing higher charges the further away they are from the GB centre of demand in the south east of England. For example the charge for a 100MW windfarm in the north of Scotland is £2.2m per annum compared to a £0.6m annual rebate for identical plant in south west England. This undermines the investment case for renewables, particularly in the north of Scotland where some of the UK’s best wind, wave and tidal resource is located, and damages the case for investment in Scotland’s thermal generation fleet, such as Longannet.

We are arguing within the working group for options which reflect capacity sharing by low load factor plants and also properly treat the elements of HVDC convertor stations by analogy with plant performing similar functions on the existing grid. These options would reduce current charges for wind and low load factor generation in Scotland and would minimise the increased charges to be faced by all generation using the HVDC sub-sea ‘bootstrap’ links necessary to transmit increased volumes of renewable electricity from Scotland to England. However, some participants are opposing these options, preferring to maintain the current very strong locational
charges. Detailed proposals are planned to be presented to Ofgem in May 2013 for a decision in autumn 2013.

We believe it is very important that all stakeholders with an interest in the Scottish power industry continue to stress to Ofgem the importance of coming up with a solution which enables the potential for investment in cost effective renewables generation in Scotland to be maximised. We would like to see implementation of a new regime in April 2014 but this will depend on Ofgem being able to take a swift decision when assessing the impact of the proposals, otherwise there could be slippage to April 2015 given the difficulty of making mid-year changes. It will be important to minimise actions which delay and/or dilute benefits to generation investment in Scotland.

**Fuel prices and fuel poverty**

Energy prices are principally influenced by commodity costs, the cost of delivering electricity and gas to people’s homes through the networks (regulated by Ofgem) and the costs of the various environmental and social programmes including energy efficiency programmes, renewables programmes, feed-in tariffs, the carbon price floor, the warm home discount and the requirement to fit smart meters. We recognise the responsibility of the political process or Ofgem to set the level of these programmes taking account of their benefits and the impact on bills. It is our responsibility to play our part in delivering the programmes.

It is important to recognise that energy efficiency programmes will reduce the average size of energy bills. It is therefore appropriate to update the benchmark levels of consumption to each year to take account of the average success of these programmes; otherwise customers will see the costs of the improvements without being made aware of the benefits.

ScottishPower has resources dedicated to ensuring vulnerable customers are able to get access to suitable payment methods, energy efficiency support and tailored payment profiles. We have worked with others in the energy industry, the wider voluntary sector and Government to make sure the best, impartial advisory services are available when needed.

Fuel poverty can be traced to the inter-relationship between energy costs, housing quality and income. Green Deal and ECO are UK wide schemes and will be undertaken where most cost effective. There is no automatic ring fencing to Scotland and local authorities and housing managers will likely have to actively structure their housing investment strategies to augment the Green Deal and ECO funding mechanisms.

We therefore welcome the Scottish Government’s continued funding to assist those in fuel poverty and improve the energy efficiency of homes in Scotland through the National Retrofit Programme, particularly given this type of funding has been removed in England. We believe that this continued funding support from the Scottish Government will help to ensure that Scotland receives more than its fair share of ECO spend from energy suppliers. We are currently working with a number of Scottish Local Authorities and RSL’s with the aim of providing ECO funding support for their local improvement programmes.
The Scottish Government’s recent progress to introduce an ECO referral mechanism for the Home Heating Cost Reduction Obligation is also to be supported. Experience in targeting the CERT Super Priority Group demonstrates how valuable it is for suppliers to have assistance in identifying those who are eligible under this obligation but are traditionally very difficult and costly to find. We believe this will not only help direct help to those who need it most in Scotland, but it will help reduce the overall cost of the ECO scheme and the resulting impact on energy bills.

Scottish Power
February 2013