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Dear Angus,

**ENERGY AND CLIMATE CHANGE COMMITTEE INQUIRY  
INTO LOW CARBON NETWORK INFRASTRUCTURE**

Thank you for inviting me to give evidence to the Committee on 26 April as part of the inquiry into low carbon network infrastructure. I welcomed the opportunity to present Government views and actions.

I promised to write to the Committee on a number of topics which arose during the discussion. You also wrote to me on 27 April requesting responses to some more detailed points raised during the session.

Transmission Charging

During the evidence session we discussed locational and national transmission charging. You also raised differing transmission charges in other EU member states, both in the evidence session and in your subsequent letter to me.

Great Britain's transmission charging regime is governed by the principle that 'the user pays'. In other words, the costs of operating and maintaining the system are met by those who benefit from it: generators and demand customers (through charges on suppliers). This ensures the economically efficient use of the transmission network and limits the overall costs to consumers across the country. It is applied on a consistent basis and is overseen by Ofgem. The higher transmission charges for generators in certain areas of the country reflect the costs they impose on the transmission network in transporting electricity to demand centres. Conversely, demand customers in generation exporting areas pay lower transmission charges.

You will be aware that in October 2015, as recommended by the Committee following its inquiry into network costs, Ofgem published a detailed analysis of regional differences in transmission and distribution network charges<sup>1</sup>. As I mentioned during the evidence session, Ofgem found that a move to a single national network charge would mean 1.8 million households in Scotland facing higher bills, and 700,000 households seeing reductions. For Great Britain as a whole, approximately 16 million households would face higher bills, while around 11 million would see reduced bills. Ofgem concluded that there was no compelling case from a regulatory perspective to move to a national network charge.

<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/regional-differences-network-charges>

International comparisons of transmission charges are not straightforward because network costs are recovered in different ways and the exact composition of the charges will differ between countries (e.g. regarding treatment of tax). Overseas generators exporting power to Great Britain will also be subject to a range of other charges and taxes in their own country. A study published by ACER (an organisation representing independent regulators across Europe) has found no evidence that lack of harmonisation in transmission charging is creating investment inefficiencies<sup>2</sup>. You referred specifically to wind farms in France and the Netherlands in your letter. I note that in both of these countries transmission costs are recovered solely from consumers. As mentioned earlier in this letter and during the evidence session, we do not believe that this leads to a more efficient network overall. I also note that in both France and the Netherlands domestic consumers pay higher network costs than in this country.

On the level of transmission charges for wind farms in West Scotland, as highlighted in your letter, these generators should benefit from changes to the transmission network charging regime from 1 April 2016. The changes mean that transmission charging now takes into account the load factor of generation. It is also worth bearing in mind that one of the main drivers for transmission costs is the need for new network investment to accommodate renewable generation in areas such as Scotland.

#### Remote Island Wind Contracts for Difference (CFDs)

During the evidence session I confirmed that the Government's position on Remote Islands Wind and CFDs had not changed. It is still our intention to be technology neutral in the longer term, whilst in the shorter term supporting technologies as they develop. To this end it is our intention to run a Pot 2 Round by the end of the year once decisions on the make-up of that pot have been made.

You also asked during the evidence session, and in your subsequent letter, about the State Aids Notification. As I said, we are in the process of engaging with the European Commission. We have had extensive correspondence with the Commission during the pre-notification process. Once a decision has been made on all Pot 2 technologies for the next CFD round, we will submit any necessary Notification to the European Commission. Once a Notification has been submitted we would expect an answer in around two months, dependent on whether there are any follow up questions from the Commission.

#### Smart Meter Rollout

During the evidence session we discussed the smart meter roll out and you asked in your letter for progress updates on the rollout, including information on the number of smart meters installed.

The Government is committed to every home and small business being offered smart meters by the end of 2020. The Programme is making good progress and over 3 million smart meters and advanced meters have been installed in homes and business across Great Britain in the Foundation stage of the Programme, ahead of the nationwide roll-out.

The central data and communications infrastructure that will be used by all energy suppliers to operate their smart meters has begun final testing and is planned to go live this August. We assess all nine large energy suppliers as being adequately or well prepared to start using the Data Communications Company and to begin the main installation phase later this year. Consumer awareness of the benefits of smart meters is growing and 80% of those people with a smart meter would recommend them to others, and 80% having taken action to reduce their energy consumption.

The Government publishes quarterly updates on the number of smart meters and advanced meters installed and operated in Great Britain, with our last update published on 31 March (<https://www.gov.uk/government/statistics/statistical-release-and-data-smart-meters-great-britain->

<sup>2</sup>[http://www.acer.europa.eu/en/electricity/FG\\_and\\_network\\_codes/Documents/Scoping%20conclusions%20for%20harmonised%20Transmission%20Tariff%20Structures%20in%20Electricity.pdf](http://www.acer.europa.eu/en/electricity/FG_and_network_codes/Documents/Scoping%20conclusions%20for%20harmonised%20Transmission%20Tariff%20Structures%20in%20Electricity.pdf)

quarter-4-2015). This includes information on the proportion of all meters that are operating in a smart mode which we use to measure overall progress. I will ensure that the Committee is notified about forthcoming releases of our official statistical information. Unfortunately we are not able to show this information separately for each energy supplier, as it is commercially sensitive.

#### District Heating

During the evidence session, and in your letter, I was asked for views on some research undertaken by Wales and West Utilities on subsidy levels to encourage the uptake of district heating.

As I highlighted during the evidence session, we have committed over £300m of funding for heat network projects. The funding is designed to be a time-limited support mechanism to help transform the heat networks market, creating both volume and a sustainable pipeline of projects that will help create the conditions required for the market to continue to grow sustainably in the 2020s.

We are currently exploring a wide range of investment support mechanisms, including the provision of grants and loans, to accelerate deployment of efficient, low carbon heat networks. As part of this we will examine wider stakeholder proposals and research, including those undertaken by Wales and West Utilities. We need to design our investment support in a way that makes as much impact in the sector as possible and we will shortly be undertaking structured stakeholder engagement to help us design the scheme. It will be important that, through the provision of this funding support, the end consumers are appropriately protected and that efficient, well designed heat networks are developed that both save carbon and keep costs as low as possible.

#### Interconnection

During the evidence session, we discussed electricity interconnection with other countries. It is clearly the case that we will continue to generate significantly more electricity than we import. As I mentioned during the evidence session, we currently tend to receive electricity rather than export it through the interconnectors themselves.

I hope you find this information useful and I would be happy to provide any further details or clarifications.

Best wishes



**ANDREA LEADSOM**

