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of Energy &
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27 September 2014

Fergus,

Thank you for your letter dated 5 August, in response to my earlier letters on the Electricity Market Reform and draft Contract for Difference (CFD) budget notice. I apologise for the delay in my response.

I share your disappointment that the State Aid approval for the CFD for Renewables scheme did not include Scottish Islands' onshore wind. We had hoped that the current approval would be comprehensive and reflect our notification, which included our policy for Scottish Islands' wind projects, and which we have been working together on so closely.

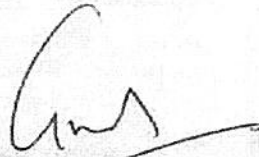
However, the Commission raised issues at the very last minute that we were unable to resolve without delaying the whole CFD scheme, which would have had a significant negative impact on projects across the UK. We therefore reluctantly accepted that Scottish Islands would not be included in the final decision and that it would be submitted separately for approval. We will be working with the Commission to take this forward urgently, to ensure that it will work within the timetable for the projects, and the actions agreed at the Delivery Forum.

Our policy intent is that, subject to State Aid approval, these projects should be eligible for the enhanced CFD strike price, and they would be included in a "less developed technology" pot for the allocation of contracts. My officials have already started planning the approach for notification of this policy and collaborative discussions between our Governments have begun at official level. We are keen to continue to work with you to secure a positive outcome.

We recognise the importance to developers of visibility of support and are currently considering the timeline for publishing strike prices beyond 2019. Annual updates to the Delivery Plan may include future strike prices, though exact timings will depend on decisions taken by a future Government following the general election.

As set out in the draft budget notice, we will have held back close to £1bn of Levy Control Framework funding by 2020/21 for allocation to future renewable and carbon capture and storage projects. Holding budget back for technologies and projects which are unable to bid for funding in this allocation round, such as Scottish Islands' onshore wind projects, was a key consideration in setting the CFD budgets. I remain strongly committed to realising the cost-effective potential of these projects.

The paper on contract for difference for non-UK renewable electricity projects was published on 4 August. Please see: <https://www.gov.uk/government/publications/cfds-for-non-uk-renewable-electricity-projects>. Your officials will be involved in due course when this programme of work progresses.

Yours,


EDWARD DAVEY

As you can see, I remain totally committed to the Scottish Islands' onshore wind potential and I hope we can return to the constructive engagement we had before the referendum result.

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In 2014 Scotland Welcomes the World



5th August 2014

Dear Ed,

I am responding to your letters of 7th and 16th July 2014 in relation to Electricity Market Reform and the publication on July 24th of the draft CfD budget notice.

The publication of the draft budget notice for the first CfD allocation round this coming autumn confirmed that the state aid approval the European Commission has granted for the CfD mechanism does not as yet extend to Scottish islands' onshore wind.

I am very disappointed at the news itself but especially by the fact that we were not offered an opportunity to take part in or contribute in any way towards discussions with the Commission on this aspect of the CfD package.

I understand that the Prime Minister's visit to Shetland played a part in our not being alerted to the Commission's queries until the announcement was imminent. This is clearly at odds with our agreement on a joint working arrangement, as well as on the wider commitment – and legal requirement under the Energy Act – concerning meaningful consultation between our Governments. I would like to know when the Commission first raised concerns with your Departmental officials.

I welcome the published assurance that the UK Government's policy intent in relation to Scottish islands onshore wind has not changed. Our officials (based both in the UK and in Brussels) should now work together, co-operatively and urgently to persuade the Commission of the case for supporting developments on the Scottish islands. This joint engagement with the Commission should be treated as a priority.

As we discussed at the Delivery Forum in Glasgow on 26 June 2014, the fundamental issue of importance to developers is visibility of support in the years beyond the current Delivery Plan. You are well-versed in the cycle that prevents the progress of needs cases to Ofgem and the key action for your Department from the Delivery Forum is to help unlock the impasse by providing greater certainty on strike prices and budget beyond 2018/19.

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The need to go back to the Commission with new notification provides an opportunity to take stock and, given the long lead times for the island connections, strengthen the case to extend the island strike prices beyond 2018/19. We should also explore the potential afforded to you by the Energy Act to construct bespoke contracts in particular circumstances.

I hope that we can be in a position to review progress on state aid issues by the time of the next Delivery Forum on 25 September.

Finally, I note from your letter of 16 July that your Department is planning to publish a paper about the potential for extending Contracts for Difference to non-UK renewable electricity projects. We do see the value in enabling the most cost-effective forms of renewable generation to contribute towards meeting our challenging and binding renewables targets supporting security of supply. As noted in the annexes which you have helpfully shared, there are some evident complexities and challenges to be addressed if this is to be achieved; my officials would be happy to work alongside their counterparts in DECC in discussing and attempting to resolve these.

Yours sincerely
Fergus
FERGUS EWING