

Speech by Charles Hendry
Minister for Energy and Climate Change
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Thank you for inviting me to your conference today. I'm delighted to have been given this opportunity to say a few words to this gathering of leading figures in Ireland's energy sector.

The energy challenge

I'd like to start by recognising Ireland's strong recent growth in renewables, and particularly your expertise in harnessing your abundant wind energy resources. But let me take a step back and set out the energy challenge that Ireland, the UK, and indeed much of the global community faces. Coming up with an energy policy that delivers safe, secure, low-carbon and affordable energy to 2020 and beyond, will not be easy.

Looking for a moment at the UK, over the next forty years demand for electricity could double as the population grows, and we increasingly turn to electricity for heat and transport. Our goal is to put renewables firmly in the energy mix over the period of the UK's 4th Carbon Budget.

Over the next decade around a quarter of the UK's existing generating capacity will close, and an estimated £110 billion investment in electricity generation and transmission is likely to be required by 2020, more than double the current rate of investment.

The UK Government has made clear it is committed to achieving the UK's legally binding target of 15% renewables by 2020 in the most cost effective way, which minimises impact on consumer bills.

Reaching our targets will require contributions from all parts of the UK and all the Government's in the UK have set ambitious targets.

The Northern Ireland Executive is aiming for 40% renewable electricity by 2020 and they see the sustainable development of the offshore renewables sector as a key element in their energy mix to 2020 and beyond.

We welcome too the Welsh Assembly Government's aims for Wales to generate twice as much electricity from renewables as it consumes by 2025, and the Scottish Government has set a commitment to generate the equivalent of 100% of its own electricity demand from renewables by 2020.

Like Ireland, we face these challenges in a period of fiscal austerity. But there are real benefits to be had in delivering on this agenda. In the past seven months or so, a potential £1.7 billion has been invested across the UK, with up to 9,500 jobs announced. And of course, renewables have another key advantage in securing our energy supplies and reducing our growing dependency on imported fossil fuels.

A package of measures

A major role for Government is to address those factors that are currently inhibiting investment in the "green" economy.

In July DECC published the UK Renewable Energy Roadmap, signed up to by all Devolved Administrations, which is a plan of action to increase renewables deployment and drive down costs, and sets out our work to overcome barriers.

We are reforming the electricity market to deliver the clear signals and stability that the private sector needs to invest in the full range of low carbon technologies. We intend to legislate for the key elements of the EMR package through primary legislation next year. We intend that the legislation

will reach the statute book by spring 2013 so that the first low-carbon projects can be supported under its provisions in 2014.

The technical update to be published around the turn of the year will be focused on Institutions and the capacity mechanism.

We are changing the planning system for major infrastructure so that crucial energy projects don't face unnecessary hold-ups, people get a chance to have their say, and decisions are made by elected Ministers; and

Eliminating grid connection barriers for low carbon energy production. We have already brought in enduring grid access reforms, so that new generators can connect to the grid as soon as their local connection is built. A key element of this is a competitive tender process run by Ofgem, to appoint Offshore Transmission Owners (OFTOs) to construct, own and operate the transmission assets where a generator chooses not to do so themselves.

Economy

Successful implementation of these measures will bring about a renewable energy revolution in the UK. And there are signs that the revolution has already started.

Over the last financial year, nearly 4,500 new jobs were created in the low-carbon sector, which grew by 4.3%.

51,600 companies in Britain provide low-carbon and environmental goods and services. Exports are now £11.3 billion, up 3.9%.¹

By this Christmas we will have 3GW of biomass installed, by Easter 5GW of onshore wind and by Christmas 2012 there could be 3GW of offshore wind operating in the UK.

At a time when closures and cuts dominate the news, next-generation industries are providing jobs and sinking capital into Britain, just when we need them most.

Offshore wind

I would like to turn to offshore renewables and consider some of the benefits and opportunities that it brings.

Around these islands, our wind, wave and tidal resources are spectacularly abundant and this makes us both natural leaders for offshore renewable energy. The UK now has over 1.5GW of offshore wind capacity operational and a third of this has come online within the past two years.

Where we need to see costs come down, we are taking action. An Offshore Wind Cost Reduction Task Force has been established and had its first meeting last month.

The recently announced Renewable Obligation banding review consultation proposes maintaining support at 2 ROCs until 2014/15 to provide the sector with sufficient support to ensure continued investment in offshore wind development. The work being done to remove barriers to deployment and reduce costs should then enable us to reduce ROCs in 2015/16 and 2016/17 without a large impact on the level of deployment.

Offshore wind has tremendous potential to generate new and long-term employment in the UK; indeed recent reports by the Carbon Trust and Douglas Westwood indicated that both the manufacturing and installation of turbines and components, such as foundations and electrical components, as well as the wider supply chain supporting this sector, can create a substantial number of jobs.

The UK now has an emerging and competitive supply chain. The Government is also playing its part – for example by offering support for the development of new offshore wind manufacturing infrastructure at port sites.

¹ BIS/Innovas, *Low carbon and environmental goods and services report for 2009/10* (2011)

We are providing up to £60 million for offshore wind manufacturing infrastructure at port sites in Assisted Areas in England. And the Scottish Government are providing £70 million of support. Attracting turbine manufacturing to the UK is key to realising the maximum economic potential this sector offers.

Northern Ireland's offshore resource is also strong and shows potential. A Strategic Environment Assessment has identified that up to 900MW of offshore wind and 300MW of tidal stream resource could be developed by 2020.

I'm pleased to see that the Crown Estate launched a Northern Ireland Offshore Leasing Round earlier this year and will be seeking Expressions of Interest from developers shortly.

This is encouraging and especially important for Northern Ireland. It is also beneficial for the Republic of Ireland, in the context of a single electricity market on the island of Ireland, as we are all planning to develop the economic and energy potential of offshore renewables around our coasts.

Renewables financial incentives

I mentioned just now the consultation on the Renewables Obligation Banding Review for England and Wales launched last month which some of you may have seen. (Northern Ireland and Scotland are having their own separate consultations). The lead banding scenario proposed in this consultation focuses on scalable lower-cost renewable technologies that will deliver the majority of the electricity we need to meet our 2020 targets.

Through the RO, Government is reinforcing our commitment to renewables and provides what developers most need: a stable framework in the run-up to electricity market reform.

Where new technologies which have the potential to scale up significantly (while bringing their costs down over time) need help to reach the market we are raising RO support. For example, marine energy projects up to 30 megawatts will receive five ROCs under our plans.

Where market costs are coming down – in onshore wind, for example – we're consulting on reducing the subsidy.

Overall, our reforms will reduce the risks for investors in low carbon by setting out a clear and stable investment framework – and so creating the right conditions to attract the capital needed to transform the system. So we are building in a phased transition from the RO to the new Contract for Difference.

As you may have seen from the UK Renewables Roadmap, we have high ambitions for offshore wind and want to see a huge increase in deployment to 2020 and beyond.

An All Islands Approach/Trading

We need to look outwards and embrace the opportunities that renewable energy and further market integration brings. Movement towards a Single European Energy Market presents a real opportunity for Ireland and the UK to achieve substantial revenue benefits from electricity exports. A very tangible step forward will take place next year with the coming on line of the East West interconnector, built by Eirgrid. We welcome this doubling of interconnection capacity between our islands and hope that its success and utilisation will lead to further growth in interconnection between Britain and Ireland in the coming years.

In addition to exports, there are other benefits from deeper co-operation and greater energy trading between Britain and Ireland. As trusted friends, with close personal, business and government to government connections, Britain and Ireland can each have confidence in security of supply from the other. Much of Ireland's gas comes through Britain and we would welcome Irish-generated electricity forming part of Britain's energy mix. We hope that our open and competitive energy market will make it possible for Irish companies to increase their market presence there in the future. There is clear political commitment behind this co-operation. Some of you may be aware that earlier this year Ministers from the Governments of the United Kingdom, the Northern Ireland Executive, the Irish Republic, the Channel Islands and the Isle of Man signed up to co-operate on exploiting the major wind and marine resources in and around the islands.

This All Islands Approach to optimise our use of low carbon energy resources around these islands will encourage and enable developers to harness as much of our renewable energy sources as cost-effectively as possible, increasing the integration of our markets, and improving our security of supply.

Under our joint leadership with the Irish Government, officials representing the members of the British Irish Council are now working together to take this forward, in particular to identify the potential mutual benefits to exploit renewable energy opportunities and greater interconnectivity between BIC members..

For renewables we will first identify those opportunities that could be available to BIC members from which to develop a small number of representative case studies to identify the potential mutual benefits of such an approach, together with ways to address the complex financial, legal and regulatory barriers to cross-border trading and greater interconnection. And work is also being taken forward on the remaining two workstreams looking at market coupling and analysis of fit of joint projects with interconnection regimes respectively. I understand that my officials will be reporting on progress at the next BIC officials meeting early in the New Year.

While the UK is looking to meet our 2020 renewables target domestically, the Roadmap mentions that the UK will look to ensure we have the powers to both import and export renewables through the use of the flexibility mechanisms in the Renewable Energy Directive that I've just mentioned, where this can secure the greatest benefit to the UK.

As part of this work, we are exploring the best way to increase investor confidence should it become clear that trading must be part of the UK's path to meeting the 2020 target.

We are looking at how the UK's existing and future support mechanisms could be used to support generation outside of the UK and the policy will need to consider and take account of the new mechanisms we are putting in place as part of Electricity Market Reform.

We will be publishing a technical update to the White Paper around the turn of the year which confirms the Capacity Mechanism and Institutional Framework parts of the package.

As I've already set out, our work with the British Irish Council will help development of the UK's policy for renewables trading.

There are great mutual benefits if we can realise this - the opening of new markets for electricity generated in these islands, the development of renewable resources that would otherwise be trapped, and enhanced security of supply by spreading generation over a larger geographical area. Of course, it will be for individual nations to decide how their resources should be developed, but this is a real case of the 'whole' being much greater than the sum of the parts.

Conclusion

I would like to end by saying how much I am looking forward to us all working together to further embrace the opportunities that greater deployment of renewables will bring around these islands.

The UK Government is aware that it must break down the financial and non-financial barriers to deployment; industry must continue to bring forward the new and innovative projects that we need; and together we must continue to communicate the benefits of renewables for the economy, for the environment and for our future.

I look forward to working with you to make achieving our goals a reality.