HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Chair of the Treasury Select Committee

Treasury Select Committee, House of Commons

London SW1A 0AA

23 November 2020

Dear Chair,

I am writing to you in response to a number of questions posed to me during the Treasury Select Committee session on 16 November.

Firstly, I resolved to set out the Government's position in response to a query from the Honourable Member for Glasgow Central regarding the delivery of Net Zero projects in Scotland and the costs of grid transmission.

Network charging is ultimately a matter for Ofgem, as the independent energy regulator. Charges are paid by generators and suppliers and designed to be cost reflective to ensure the efficient use of the network across Great Britain and to limit overall costs to the end consumer. These transmission charges cover the costs of maintaining and upgrading the high voltage transmission network across Great Britain.

I recognise that transmission-connected generators in Scotland tend to pay higher charges than equivalent generators in England and Wales, reflecting the actual costs that these generators impose on the network. This arises because of the need for transmission investment to accommodate the north-to-south power flows which meet demand needs in the Midlands and South. Generators pay less than 20% of transmission charges with most being paid by suppliers, also on a cost reflective basis. This means that the majority of transmission charges are recovered from consumers in areas of highest demand, namely in England and Wales.

Ofgem is currently undertaking a review of Network Access and Forward-Looking Charges. It is considering how the cost reflective signals which charges send to network users may be improved, and is likely to be relevant to some generation projects in Scotland. Ofgem has said that it will consult on proposals in 2021. HM Treasury will continue to engage with BEIS and Ofgem on this issue.

Second, I promised to write to the committee about UK Export Finance's (UKEF) support for fossil fuel projects.

UKEF is a ministerial department reporting to the Secretary of State for International Trade that offers a range of financial products to ensure no viable UK export fails due to lack of finance or insurance. UKEF considers all relevant factors when determining whether to provide support for a particular transaction, including credit risk, wider government policy and environmental, social and human rights impacts.

The Government is committed to working with countries across the world to unlock their renewable energy potential and support their transition away from fossil fuels to cleaner alternatives. UKEF is supporting this by helping to drive UK content into overseas renewables projects across the globe. This includes £230m export credit support for a large-scale windfarm off the coast of Taiwan and £47.6 million financing to build two of the largest solar plants in Spain. UKEF's involvement in projects such as these enables more UK companies to win business, further unlocking the export potential of this growing sector of our economy.

At Budget 2020, the Chancellor allocated an additional £2 billion to UKEF's direct lending facility to support clean growth and renewable energy projects. UKEF was also given additional funding to hire Export Finance Managers to support UK businesses in Scotland and the North East with the aim of finding and securing further opportunities for clean growth exports.

I hope the Committee finds this information helpful.

Yours sincerely,

Kemi Badenoch MP
Exchequer Secretary to the Treasury and Minister for Equalities