Industrial Strategy: Sector Deals and Productivity Inquiry

January 2018

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK’s energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HM Treasury.

Introduction

Energy UK and our members welcome the opportunity to respond to the BEIS Select Committee inquiry on the role of sector deals in the Government’s Industrial Strategy. Energy UK supports the work that is being carried out by the Offshore Wind Industry Council (OWIC) in this area and welcomes the Government’s ambitious Industrial Strategy and Sector Deal process.

In addition to the response below, please also refer to any responses from our members who will be providing submissions separately. Should you have any questions regarding this consultation response then please do not hesitate to get in touch via the details below.

I can confirm that this response may be published on the Parliamentary website.

Yours sincerely,

Jamie Rubie
Economic and Statistical Officer
Energy UK, Charles House
5-11 Regent Street
London
SW1Y 4LR

jamie.rubie@energy-uk.org.uk
Response to the Offshore Wind Inquiry Focus

Offshore wind sector achievements

1. The offshore wind sector has delivered on the Government’s Industrial Strategy aims over the past few years; delivering employment, contributing to GDP, developing a strong supply chain, continued investment, improvements in productivity and clear export potential, among others. The UK has the largest offshore wind capacity in the world at 5.3GW: a 77% increase in capacity between 2012 and 2016¹, as well as a number of large scale projects in the pipeline. The three largest offshore wind farms in the World are all in UK water and Hywind² is the world’s first floating offshore wind farm located in the North Sea.

2. Ongoing innovation and efficiency improvements have led to significant cost reductions, including around a 50% reduction in clearing prices in the recent³ Contract for Difference (CfD) auction compared to 2014 prices. Much of the cost reduction from innovation has been brought about by larger and more efficient wind turbines – some as large as 9.5MW⁴ - as well as developments in the laying of transmission cabling and manufacture of the foundation and turbine towers. The establishment of a UK supply chain base and improvements in efficiency has also allowed the sector to benefit from industrialisation. Energy UK is in no doubt even greater levels of innovation will take place within the sector, leading to the potential for further cost saving improvements in the future alongside the establishment of a successful sector deal.

Contribution to the wider economy

3. In establishing and supporting supply chains, the offshore wind sector has awarded contracts to UK businesses across the full lifecycle of wind farm projects including initial development of projects, through to operation and maintenance of offshore wind farms. UK content within offshore wind farms now stands at 48%⁵. Much of the employment is in coastal regions – outside of the South East – in areas characterised by low productivity. The Siemens turbine factory in the Humber region and General Electric’s new research, design and development facility in Southampton are excellent examples of how manufacturing supply chain development can support regional growth; bringing employment⁶, income, exports and skills to an area.

4. The investment and success of the sector to date has been facilitated by a predictable Government support mechanism that has given developers and investors the visibility and confidence needed to invest. The Sector Deal is needed so that the offshore wind sector can continue on its path to further deployment and cost reductions, by providing a long term framework that will facilitate the continuation of investment within the UK across the development, construction and operation of offshore wind projects, all the way down to UK supply chains. The provision of early clarity on the timings on future CfD auctions will allow, in particular, supply chains to unlock further investment and cost reductions by offering some degree of certainty over their future product and service demand.

Are the criteria for sector deals sufficiently clear and fair to enable any sector to secure them? Which of the Government’s criteria are the most important?

5. The Industrial Strategy White Paper sets out the criteria for sector deals as follows:
   - Clear leadership from the sector.
   - It represents the breadth of the sector,
   - Include a rigorous analysis of the comparative strengths and weaknesses.
   - Presentation on how it will impact on productivity, earning power or availability of good work.
   - What the sector can deliver

¹ BEIS, Digest of UK Energy Statistics, 6.4, 2017
³ BEIS, September 2017.
⁷ Financial Times report into the Siemens factory, https://www.ft.com/content/69b668b16-67da-11e6-ba85-95d1533d9a62
6. Energy UK believes the criteria are sufficiently clear. We consider the most important criteria of any sector deal is the required analysis looking into the strengths and weaknesses of the sector and how the proposals within the deal will impact earning power, employment and productivity; the latter of these being the main focus of the Government's industrial strategy.

7. The offshore wind sector delivers on each of the criteria above, past and present, and will continue to do so alongside the successful implementation of a sector deal that delivers a framework for investment, skills for future high value employment in the right places and support for a UK based supply chain. OWIC, working alongside BEIS provides the sector's leadership and strategic thinking to ensure the sector deal is advantageous for both the offshore wind sector and for Government in meeting its industrial strategy objectives.

What will sector deals contribute to increasing productivity across the entire UK?

8. Sector deals can allow Government and industry to focus on specific issues and solutions to increase productivity. These can be of a horizontal (across sector) or vertical (sector specific) nature. Early clarity on the timings of future CfD auctions provides the visibility required for the offshore wind sector to build upon its past success in bringing down costs and expanding UK supply chain content. This gives some degree of certainty to both developers and most importantly, supply chain companies; allowing them to invest in labour, innovation, capital and other cost saving measures. Creating visibility over future offshore wind development projects ultimately allows developers to take a long term view over investments which will likely increase productivity within the offshore wind sector, and diffuse across the wider sectors that support it.

9. Skills and training is another area of the offshore wind sector deal that is important not just for this sector in particular, but for wider sectors within the UK. The offshore wind sector is working alongside Government to ensure the sector has the right skills from both apprentice, graduate and experienced employee levels however we believe that it is important for Government to invest in the skills that have a cross-sector element to them as well, across all stages of academia. Skills such as engineering, software, robotics and business are obvious examples.

10. One area Energy UK would like to see further discussions on is the Offshore Transmission Owner (OFTO) regime license where there should be a holistic review to ensure that the arrangements deliver best value to the sector. The sector deal should identify the optimum transmission framework under the OFTO regime so that continued deployment continues at the least cost to consumers. Energy UK would be happy to support further engagement between BEIS, Parliament and our members on this topic.

11. The Government has identified Clean Growth and Future Mobility as Grand Challenges in the Industrial Strategy. The sector deal for offshore wind can contribute to both of these Grand Challenges as we secure the UK’s position at the forefront of offshore wind development and deployment, providing cost-effective low carbon electricity to households and businesses across the UK and contributing to decarbonisation of other sectors such as the emergence of electric vehicles.

What is the best role for local decision making in supporting sector deals and grand challenges?

12. As previously mentioned the nature of the offshore wind sector means that it has a reach and impact that stretches across the UK. Therefore, it is important that devolved administrations and local authorities are engaged in decision making to ensure the right skills and investments are in place at a local level to facilitate a successful offshore wind sector.

What are the metrics of success for sector deals? Is there enough transparency throughout the process?

13. The metrics of success of a sector deal will be delivering on the main aim of the Industrial Strategy - to drive increases in productivity across the UK so as to contribute significantly towards economic growth and create better and higher paying jobs across the UK.
14. Offshore wind has already seen improvements in productivity through all stages of the project lifecycle; some have been learning-by-doing productivity improvements, whilst others have been brought about by innovation. There are currently circa 10,000 FTE employees already working within the sector and this is expected to grow to 21,000 FTE by 2032. UK companies are also winning increasing amounts of work within offshore wind abroad, exporting mainly knowledge and consulting services, especially in high growth areas such as Germany. This commitment nationally and internationally has most definitely been a key driver in the cost reductions we have seen in recent years. Whilst financial and economic arguments can be made for why offshore wind is critical for the future of the UK, it also meets the Grand Challenge of benefiting and adopting clean growth.

15. The success for offshore wind will be how we ensure that the sector deal can positively contribute to the sectors continued success by increasing deployment levels, driving even greater levels of investment and innovation, and securing a strong competitive UK supply chain which is best placed to compete in the global market.

16. Energy UK is of the understanding that a sector lead engages with Government to deliver a sector deal. In the offshore wind sector, this is the responsibility of OWIC; a group of stakeholders with interests in project development, construction and operation, as well as those from the supply chain.

17. There are a number of areas within a sector deal for offshore wind that can help to increase productivity across the UK. Primarily these include improving the skills available to the offshore wind sector through engagements with local academic institutions; funding research and development alongside industry to deliver further innovation improvements which can lead to greater cost reductions going forward; and improving the UK supply chain so that it can deliver both for the domestic market and abroad.

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7 Future UK Employment in the Offshore Wind Industry, Aura, June 2017