

FINANCE AND HOUSING DEPARTMENT
FINANCE DIVISION

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ORKNEY
ISLANDS COUNCIL

OUR REF: AT/OH

YOUR REF:

25 November 2009

Dear Sir/Madam

Please find below Orkney Islands Council's submission to the consultation.

Yours faithfully

Albert Tait

Director of Finance and Housing

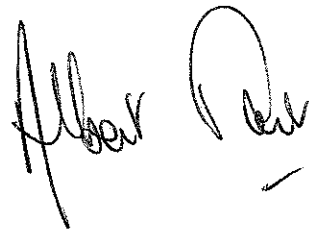
Ofgem Consultation "Enhanced Transmission Incentives – Initial Proposals"
Submission by Orkney Islands Council

The Council is grateful for the opportunity to comment on this consultation paper. It does so on the basis of its wish to promote the emerging marine energy industry in the County, which can contribute to the local economy as well as helping to realize Government objectives for carbon reduction and the expansion of renewables. The development of wave and tidal energy will add a new dimension to the UK's portfolio of carbon-free electricity generation. Orkney is uniquely well suited to the development of these new technologies, since it is rich in wave and tidal resources, and it hosts the European Marine Energy Centre, as well as a growing body of academic and commercial expertise. The Council is gearing up for the development of the industry, which will be accelerated by the Crown Estate leases in the Pentland Firth and Orkney Waters, by undertaking investment in the establishment of servicing facilities in the County. Further development of marine renewables can only take place in Orkney if the current grid constraint is overcome by the development of new additional grid capacity. Lack of grid capacity has been a constraint on renewable development in Orkney for some time, temporarily eased by the establishment of a Registered Power Zone. However, resolution of this issue is becoming more urgent, given the potential for wave and tidal energy from Orkney Waters.

The Council welcomes the encouragement being given by Ofgem to anticipatory investment in the grid, in order to meet Government objectives, and to achieve the vision set out by the Electricity Network Strategy Group earlier this year. It believes that it is essential that grid capacity between areas rich in renewable resources, and principal UK markets, is provided in order to encourage investment in renewable generating capacity. However, the Council has already expressed its concern, in its response to Ofgem's paper "Transmission Access Review – Enhanced Transmission Investment Incentives" (Sept 09), that no provision was made, in the nominated projects included in that paper for grid strengthening, between Orkney and mainland UK. At the very least, pre-construction costs should be provided for, so that investigatory work can be undertaken for investment which will be needed in the near future.

Thus the Council is disappointed that the present consultation paper similarly makes no provision for such costs. The Council agrees with the consultation paper's preference for allowing pre-construction costs for all nominated projects, not just for those which have secured construction funding. It notes that Ofgem's reason for this preference is that it "considers that it is important to ensure we keep open the widest range of options for future construction work, thereby minimising the cost of delay to critical investment" (para 3.18). The Council believes that on this argument, pre-construction costs of a new Orkney grid should be allowed in this Transmission Price Control Review period, especially as this period might be extended for a further year to March 2013. The location of projects proposed by those applying for Crown Estate leases will be known by March 2010, and planning will have to commence then on new grid capacity for these developments.

The Council also notes that the consultation paper envisages (para 3.32) that changing circumstances may mean that some nominated projects may require to be varied or terminated, and consequently urges Transmission Owners to ensure contracts are flexible. But there is no reference to the possibility of new nominated projects needing to be brought forward in TPCR4. There would appear, therefore, to be a lack of symmetry in the Ofgem proposals – it is envisaged that current nominated projects may fall, but not that new projects may require to be brought forward. The Council believes that this is a weakness in the Ofgem proposals which should be corrected.

Two handwritten signatures in black ink. The signature on the left is written in a cursive style and appears to read 'Alister'. The signature on the right is also cursive and appears to read 'D. Carr'.