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TransmiT

Dear Sirs

Orkney Islands Council - Project TransmiT - Submission

1. Introduction

The Council welcomes the independent and open review of transmission charging and associated connection arrangements. This review is timely, and the Council intends to participate fully in it.

The Council fully understands and supports Ofgem's description of the context of the review – the need to connect massive amounts of low carbon energy, particularly renewable energy, in a relatively short timescale, in order to meet the challenge of climate change, and the relevant targets set by Government. Orkney's low lying and exposed islands are at risk from climate change as much as, or more than, other areas of the UK. Orkney is also a significant consumer of energy, both in its industrial and its household sector, due to the transport requirements of scattered rural island communities, and domestic heating requirements in a cool northern climate. The Council is therefore well aware of the need for future security of supply.

The interests of consumers are also a major concern. Orkney has the second highest rate of fuel poverty in Scotland. The Council is therefore concerned to see that energy prices to households stay as low as possible, and that households are given every encouragement and assistance to use energy as efficiently as possible.

Orkney has some of the best resources in the UK for the generation of renewable energy, from wind, wave, and tide, and the Council's vision for Orkney is that it should be a major UK centre for the production of a mix of renewable energy, and a global leader in the development of marine energy. It wants to see the islands as a whole derive maximum economic benefit from renewable energy, particularly in terms of employment and incomes, to replace the run-down of the oil industry in the islands; and it wants to see individual communities across the islands, especially in the smaller islands, benefit directly in terms of generating new income sources to support a range of activities in each community.

This vision is consistent with crucial Government aims for the UK as a whole, in terms of the reduction of carbon emissions, the decarbonising of energy, and the establishment of the UK as a world leader in marine energy. Orkney's rich renewable resources have a key contribution to

make to carbon emission reductions. More particularly, the Council believes that the marine energy resources around Orkney, and the associated developments already taking place in the islands, are of strategic importance to the realisation of the UK's marine energy aspirations. **The current arrangements for transmission charging, and for connection to the transmission network, pose serious barriers to the achievement of these goals, and the Council sees Project TrasmIT as offering the best chance, and perhaps the last chance in the foreseeable future, to reduce or eliminate these barriers.**

2. Connection Arrangements

The existing connection arrangements make it very difficult to achieve the grid strengthening which is now required between Orkney and the mainland, given that the existing Pentland Firth grid links are at capacity. New renewables projects in Orkney or the waters around Orkney cannot currently be offered a firm connection, until grid strengthening takes place. This could act as a disincentive to renewable development in Orkney.

The difficulties are manifold and mainly flow from the mismatch between current connection procedures, and the existing small-scale pattern of renewables development in and around the islands, which is likely to continue in the future. This makes it difficult to achieve the critical mass of new development required for new grid investment to be authorised; and difficult to provide the required guarantees for such investment, especially given the definition of enabling works required to connect to the transmission network.

The requirement for new developers to underwrite works needed to connect their project to the transmission network is a major concern. Connecting to the transmission network means a cable across the Pentland Firth; it could also mean a share of any works required to reach a MITS connection point, which for Orkney is Beaully. These requirements imply a guarantee of tens of millions of pounds of investment, in addition to the direct costs to the developer of his own project. The sheer size of the guarantee is therefore the first aspect of the underwriting requirement which inhibits development, and this flows from the definition of enabling works, and Final Sums, required to connect to the transmission network.

Individual renewables projects in Orkney tend to be small scale in relation to the economic size of new cable. In the case of wind, this is in large part due to the dispersed settlement pattern in Orkney, combined with the high incidence of heritage designations, which means there are no areas suited to large-scale development. In addition, there is a strong desire in Orkney for local ownership of wind turbine projects, either by groups of individuals forming a company, or by community development trusts; the aim is to ensure that some of the benefits of exploiting local resources, remain local. Again, this tends to mean small-scale projects by local developers, who may be able to finance their own project costs, but lack the financial strength to guarantee new cable investment. To an extent current connection arrangements discriminate against small locally-owned projects, compared with large national and international companies.

In the case of marine energy, although Crown Estate leases for the waters around Orkney imply large projects in the 50MW – 200MW range over the next ten years, it is understood that the likely pattern of development is the deployment of small arrays of devices, totalling 10MW or thereabouts, once individual devices are proven, and prior to large-scale commercial deployment. Most of these projects involve major utilities which have the financial strength to underwrite cable investment. However, no one project is large enough to trigger investment in an economically-sized cable; and whilst aggregation of individual projects is possible, there is a perverse incentive on any individual project developer to hold back from any group application for connection, in the hope that those in the group will shoulder the burden of securitisation.

Thus, for an island community at some distance from the existing transmission network, and with mainly small-scale projects, some of them locally and community owned, current connection arrangements pose a web of difficulties in the way of achieving grid connection – in terms of achieving critical mass to trigger new grid investment, and of guaranteeing such investment, which under the current definition of enabling works, could include any new works to a distant MITS point, and of the calculation of Final Sums.

There are potential solutions to these problems. The proposal for underwriting to be linked to the risk profile of new investment rather than the cost profile would substantially reduce the amount of Final Sums. Socialisation of part or all of the underwriting burden, reflecting the strategic need for the new link, and a mix of committed projects and highly probable projects, would also help. Given the extent of renewable resources in and around Orkney, provision of strategic infrastructure would stimulate projects, as has been shown by infrastructure investment in other fields, such as transport. The risks of a stranded asset would be minimal. The connection arrangements should reflect this.

The Council expects Project TransmiT to give serious consideration to these and other potential solutions to the problems outlined above, in order that Orkney can play a full part delivering the renewable energy required by the UK.

3. Transmission Charges

The issue of transmission charges for the islands is a vexed one, with no definitive figures available, but a variety of estimates having been produced over recent years. The proposed figures, which include the wider zonal charge, on top of which would be levied a significantly higher charge to reflect the cost of local works, taken together are much higher for Orkney than for any other areas of the UK (apart from the other Scottish islands of Shetland and the Western Isles, for which estimated charges are even higher than for Orkney.) It is not fair, nor is it conducive to the development of Orkney's rich renewable resources, that the islands should have much higher charges than the rest of the UK. The Council believes that the level of transmission charges which have been discussed represent a barrier to the full development of the renewable resources in and around Orkney.

The proposal made by National Grid earlier in 2010, to treat the islands on the same basis as offshore wind farms, was not regarded as an acceptable solution, not least because the islands are an integral, inhabited, part of the UK, with a mix of renewable projects likely to connect to the grid through the islands.

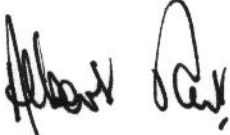
Currently, together with the other two Islands Councils, the Council is making submissions to the review being carried out by DECC into the s.185 powers to cap island transmission charges. However, whilst that review is being progressed, no conclusion will be reached or outcome achieved prior to the conclusion of Project TransmiT, on the basis that the Project may itself resolve the problem, and indeed the Council hopes that this will happen, since capping is a second best solution.

Again, there are potential solutions to this issue. The split of costs between consumers and generators could be altered in order to reflect the public interest in connecting renewable energy resources. The scale of disparity in zonal charges could be reduced; or a flat rate transmission charge, unrelated to distance, could be applied, as in some other countries. The intermittent nature of generation from renewable resources should be recognised in charges, rather than simply basing the charges on installed capacity. The Council expects that Project TransmiT will give serious consideration to all of these solutions.

4. Conclusion

The Council welcomes Project TransmiT. In this submission it has outlined the areas that the review should examine, and the kinds of solutions it should consider. The Council expects to comment further as the consultation process develops. It considers that resolution of the difficulties outlined above is urgent, in the interests not just of Orkney but of UK carbon reduction targets, and of UK aspirations to be a global leader in marine energy.

Yours Faithfully

A handwritten signature in black ink, appearing to read 'Albert V Tait', written in a cursive style.

Albert V Tait
Chief Executive