**By email to:** [**RIIOED2@ofgem.gov.uk**](mailto:RIIOED2@ofgem.gov.uk)

**RIIO-ED2 consultation**

**Background**

Orkney Islands Council (the Council) is grateful for the opportunity to respond to this consultation document. Renewable energy resources from the wind and sea in and around Orkney constitute significant concentrations of potentially exploitable renewable energy resources in the UK. The region is well placed to contribute to UK carbon reduction and renewable electricity generation targets if key regulatory barriers can be effectively addressed to facilitate deployment of renewable technologies.

Orkney’s climate however, necessitates a long heating season, our exposed conditions and wind-chill results in around 60% of households in fuel poverty. Despite improvements in house stock and other initiatives to improve energy efficiency the volatile and ever increasing cost of energy has meant that ironically our fuel poverty levels are the highest in the UK.

The Council is committed to tackle these issues and are committed to increasing renewable energy generation in parallel with cutting carbon emissions as part of the global fight against climate change. Our success in transitioning to a low carbon operation is critically linked to the availability of a more responsive and flexible electricity grid.

**We would encourage Ofgem to think again about the investment required in the North of Scotland’s electricity network. The unique characteristics and requirements of the North of Scotland, and in particular the Scottish Islands, require a bespoke and tailored approach:**

* Scotland has a legally binding 2045 net zero target, five years ahead of the rest of the UK. We can only achieve this by accelerating electrification and greater investment is required in both network capacity and reliability to facilitate decarbonisation, this will place an ever-increasing reliance on the electricity network.
* Orkney has a history of innovation, we are early adopters of decarbonisation strategies but recognise that our next step must focus on the decarbonisation of transport. This will require significant increase demand and flexibility of the electricity network. We therefore strongly support SSEN Distribution’s proactive and strategic approach to investment and urge Ofgem to reconsider.

**We welcome Ofgem allowing a Hebrides and Orkney re-opener within SSEN Distribution’s business plan for RIIO-ED2:**

* SSEN pledged to work with Ofgem and stakeholders to demonstrate that the correct whole system approach is used to replace subsea cables, resulting in cost efficiency to both consumers and renewable generators.
* We encourage Ofgem to support SSEN to bring forward funding for subsea cables, including the replacement of Pentland Firth West, if a further whole system assessment justifies the need.

**However, we are disappointed that Ofgem has significantly reduced subsea cable baseline allowances overall for Scottish islands and are concerned over the impact this will have on the replacement of the ageing Hoy – Flotta cable:**

* We are very supportive of SSEN’s investment plan to proactively replace subsea cables. These are critical links to provide power supplies for local homes and businesses and to export renewable generation. We’re concerned by Ofgem’s failure to approve funding for this targeted approach. Delaying proactive replacements during this five-year period will only increase the chances of cables faulting in the future, resulting in more delays, increased costs for consumers and constraints for renewable generators connected to the distribution network.
* We are disappointed that Ofgem has reservations on SSEN’s proposed proactive replacement of the Hoy to Flotta subsea cable. The age and criticality of this cable is driving SSEN to ensure security of supply is not impacted. The Flotta Oil Terminal and renewable generation on the island make the cable strategically important to the Orkney Islands and SSEN. The proposed new cable would add additional network resilience by adopting an ‘augmented solution’ (new cable in addition to the existing cable, until the old cable eventually fails at end of life) and we strongly support this approach.
* We welcome the decision on the Mainland Orkney – Shapinsay cable being deemed as ‘justified’ at Draft Determination stage, we have concerns over how the replacement of this cable can be delivered with such a significant level of reduction in SSEN’s subsea cable allowances.

**We’d urge Ofgem to reconsider the ‘fix-on-fail’ Uncertainty Mechanism for subsea cables:**

* Unforeseen subsea cable failures can significantly impact homes, businesses and renewable generators on the islands.
* From the generators’ perspective, cable faults can have a substantial impact on the active network management of Orkney’s grid, with the costs to generators being significant.
* An agile framework is required to enable SSEN to restore subsea cable supplies quickly and cost-effectively, and we call on Ofgem to re-assess SSEN’s proposals.

**We welcome SSEN’s approach to Consumer Value Propositions, particularly its whole system support proposal for local authorities:**

* We welcome SSEN’s proposal to embed whole systems support for local authorities and are pleased that Ofgem has recognised this in its Draft Determination. In Orkney, we’re ahead of the game in adopting electric vehicles, in investing in charging infrastructure throughout the islands, in transitioning to heat pumps but what we need to do much more with the decarbonisation of transport and consider alternative fuels such as hydrogen. It’s critical we are not prevented from progressing these aims within this price control period.
* However, we are particularly disappointed that Ofgem has rejected SSEN’s Consumer Value Proposition to support broadband to island communities through subsea cable assets. Our engagement with SSEN and as outlined in their final business plan annex S3 (pg. 54) indicated that Orkney could get a significant benefit from this proposal at little or no cost. For a community that faces the worst broadband speeds and coverage in the UK, this shows a somewhat blinkered approach and lack of understanding on the part of the electricity regulator.

**Ofgem’s proposed determination directly hinders progress to net zero, we’re calling on the regulator to think again:**

* We’re asking Ofgem to rethink its decision to revert to the conservative Future Energy Scenario, System Transformation and make further cuts to baseline allowances on top of this.
* We need critical investment in electricity networks to support growth in demand and avoid falling short of the trajectory needed to reach net zero.
* SSEN’s analysis shows that Ofgem’s proposal would lead to a 30% reduction in the number of low carbon technologies supported compared to its original plan.
* While Orkney is ahead of the curve in terms of its decarbonisation story, hindering our net zero progress now is not the answer.

Significant investment is required in electricity networks now to support the transition to net zero, this requires DNO’s to adopt a proactive approach to managing infrastructure and urge Ofgem to look again at the investment required in the North of Scotland ahead of its Final Determination in November.