

Mr Jonas Tornquist
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Dear Mr Tornquist

Transmission Investment for Renewable Generation

Thank you for the opportunity to respond to the above consultation.

As you may be aware, Highlands and Islands Enterprise (HIE) is the Government's agency responsible for economic and social development across the northern half of Scotland. We have a keen interest in supporting the development of the renewable energy sector locally given the downstream economic benefits it will bring to both local businesses and communities. In fact over the last three years we have invested over £20million in the development of the renewables sector, through attracting inward investment, supporting local business diversification and assisting community involvement in this sector. We therefore have a close interest in the development of grid infrastructure to allow substantial long term exploitation of the area's natural renewable energy assets.

HIE is a member of the Highlands and Islands Transmission Working Group which has been established to promote the interests of this area in relation to grid development and regulation. Other members include the local authorities of the Highlands and Islands (Shetland Islands Council, Orkney Islands Council, Highland Council and Argyll & Bute Council) along with the Scottish Executive, DTI, Scottish & Southern Energy and Ofgem (as an observer only). Detailed comments in relation to the consultation can be found below, and represent the views of both HIE and the local members of the Working Group.

Triggering reinforcement

We welcome the categorisation of the Beaully to Denny and Sloy to Inveraray upgrades as baseline investment. The former will be critical to allow export of energy from the area in the near term and the latter to facilitate further renewable development in Argyll. We are however extremely concerned, and frustrated, by the

categorisation of the island connections, and the Beaulieu to Keith upgrade, as 'additional investment'.

Ofgem and SKM have drawn on applications for connection to the TSO as the prime determinant for the need for reinforcement, and have downgraded the need for reinforcement where there is not certainty as to the eventual development of projects. Developers need to contend with many uncertainties, grid availability and planning being key. In addition, the current uncertainty and concern over the cost of TNUoS charges to island projects (which based on some estimates could be as high as £70/kWh based on a 100km cable connection) are such that developers cannot determine the financial sustainability of their projects and as a result cannot enter into the type of underwriting agreements currently being sought from them. The result is that there is the perceived 'insufficient commitment' to these connections to allow their development to be classed as baseline.

While it is recognised that Ofgem is simply seeking to protect the customer from the costs of developing assets which could later become stranded, the suggested options to progress these projects are unlikely to resolve the current situation. The transmission licensees are unlikely to be willing to accept the level of risk associated with the revenue driver, and the long term access requirements option may involve prohibitive costs for developers.

Progress is clearly compromised by the nature of proposals as they stand, and the unwillingness of the players to adopt a risk aware, rather than risk averse stance. Alternative models for sharing risk, triggering the need for reinforcement based on a local authority's commitment to accommodating a certain amount of renewables, or bridging mechanisms for at risk investment are needed. HIE strongly recommends the consideration of alternative models to ensure such projects are progressed.

Neither SKM's analysis, nor Ofgem's consultation, appears to consider that meeting government renewable energy targets is the defacto objective. It is HIE's view that this should be a central test of the mechanisms proposed.

It is also our view that the use of constraint costs arising from wind-only generation in justifying reinforcements is overly simplistic. There is no proposal to give all would-be connectees firm access and therefore pay constraint costs, so this should not be treated as justification for reinforcement. Furthermore, the more the system is constrained, the more consumers will pay, through the buy-out price, for non-delivery of renewables. That is not just an economic consideration, but also one of public perception and consumer confidence.

Other generation proposals

There are a number of proposals, especially on the islands, to twin wind generation with hydrogen production. HIE is excited by the prospect of the islands taking a world-leading position in innovative solutions to all-renewables generation, and hydrogen is just one example of the possibilities. Rather than simply responding to connection applications, HIE would very much welcome mechanisms whereby the TSOs have scope, and are incentivised, to work with the islands on accommodating their ambitions.

A connected issue is the means by which the case for new cable connections can take into account the cost of replacing ageing, fossil generation on the islands. In the case of Shetland, its existing diesel generating plan is now nearing the end of its life and will require to be replaced. There does not appear to be any mechanism by which the case for mainland cable connection can include the avoidance cost of replacing this plant. It is recognised that even with a cable there would be a need for base generation on the islands in case of cable failure, but the existing investment proposals do not allow any consideration of this issue or for a wider business case to be developed.

Flexibility

Despite clear and longstanding signals for the need for reinforcement to accommodate renewables projects, the time taken to reach the present situation has been protracted. This delay has been to the detriment of new generation being developed. HIE believes that it is essential that mechanisms are in place which allow ongoing decisions on investment to be taken in a timely fashion.

I hope you find these comments useful.

Yours sincerely