

# DEPARTMENT OF DEVELOPMENT SERVICES

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**ORKNEY**  
ISLANDS COUNCIL

OUR REF: jb/en

YOUR REF:

20 September 2004

Jonas Tornquist  
Head of Electricity Transmission Policy  
Networks Division  
Ofgem  
9 Millbank  
London SW1P 3GE

Dear Mr Tornquist,

Thankyou for the opportunity to comment on the Initial Proposals for Transmission Investment for Renewable Generation. The Council very much welcomes the fact that Ofgem is addressing this issue ahead of the next licensing round.

Having said that, the Council is very disappointed that new transmission capacity to Orkney is regarded as "additional investment", in relation to which even the undertaking of preliminary studies is not justified at present.

The Council is committed to economic development in Orkney, particularly given the current projections of a declining population over the next 12 years. Development in remote areas like Orkney is based very much on the natural resources of the area. Orkney has an enormous resource for renewable energy in its winds, waves, and tides. The Council is therefore very keen to see development of a renewables sector in Orkney in a way which will benefit the local community. In particular, the establishment of the European Marine Energy Centre (in which the Council is a funding partner) holds out the prospect of Orkney playing a leading role in the development of marine renewables.

Further development is, of course, constrained at present by lack of transmission capacity. This is a problem not just for those who in the immediate future, are looking to wind power developments in Orkney, but more seriously it constrains EMEC and the potential development of marine renewables.

At present, as mentioned in the consultation paper, there are uncertainties for developers thinking of establishing new generating capacity in Orkney. Most of the uncertainty, however, relates to the level of transmission charges that developers will have to pay, and the issue of whether these charges will be capped for the islands. This uncertainty might be removed in the near future.

In terms of the calculation of constraint costs versus capital costs, this calculation seems to focus unduly on short term, mainly on-shore wind development, ignoring the cost of preventing the development of marine renewables in the islands.

Protecting consumers is a paramount aim for Ofgem, but consumers need diversity of supply to ensure long term supply security. Consumers therefore have a long term interest in the development of marine renewables.

EMEC will be unable to develop with confidence, and offer near-by commercial deployment possibilities to companies which have passed through the experimental stage, if there is no extra transmission capacity. In the short term, the base load for this extra capacity will come from on-shore wind development.

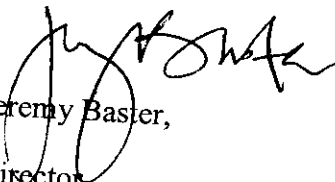
There would be justification, in the Council's view, in categorising new transmission capacity for Orkney as "incremental capacity", where "there would be significant advantages in carrying out pre-construction work while...uncertainties are resolved", thus justifying revenue allowances based on development costs.

Alternatively the possibility of some hybrid solution to cover pre-construction costs should be considered. All three Scottish island groups, including Orkney, are part of the Highlands and Islands region, which is designated as a development area by the UK Government and by the European Union, which has provided a Special Programme for the area in terms of EU Structural Funds. Some contribution for development costs could be looked for from these sources, supplementing a commitment from developers.

Thus the Council's view on the three options for handling "additional investment" (para 5.8), is firstly, that additional information about developers' plans should be sought once the issue of transmission costs is resolved; and secondly that a hybrid solution which spreads the costs and risks should be devised, including the possibility of revenue drivers, revenue allowances, developer guarantees, and government/EU assistance.

The Council believes firmly that it is in the long-term interest of all consumers that the renewables potential of the islands, especially in Orkney's case in respect of marine renewables, should be developed, and that additional new transmission capacity is the essential next step in doing this.

Yours sincerely,

  
Jeremy Baster,  
Director