

Shetland Islands Council

Response to Ofgem's Initial Proposals:

Transmission Investment for Renewable Generation

Thank you for the opportunity to comment. These comments are submitted on behalf of Shetland Islands Council.

Scotland's islands, and Shetland in particular, boast the UK's best renewable energy resources. A programme of investment which will enable the UK to meet its renewable energy targets and which helps to promote development of generation projects in the areas of best resource is to be welcomed.

Shetland Islands Council therefore welcomes the categorisation of the Beaully-Denny link as a baseline investment, which means that Ofgem agrees that it should be funded. We also welcome the fact that a Shetland/Orkney interconnector is specifically recognised as an investment project and look forward to the challenge laid down by Ofgem to build an economic (and political) case for it.

A link to Shetland/Orkney is categorised as "additional investment". This means that Ofgem view the level of firm interest in connecting generation projects in Shetland/Orkney as being uncertain, with the consequential prospect that connection assets will be under utilised or "stranded". Stranded assets are obviously not in the interest of the UK consumer.

It is Shetland Islands Council's firm belief that Shetland can offer the UK a world class wind resource, (and wave and tide in the future), deliverable projects to exploit that resource and therefore a soundly based cable investment. The punitive nature of the likely use of system charges, on any Northern Isles grid connection, and the likely requirement for developers to provide a long term underwrite of the capital costs involved would be the two biggest factors in undermining the projects seeking to connect (short of some radical re-think of the Renewable Obligation and the market which underpins renewable energy development).

Ofgem's categorisation of a Shetland/Orkney cable in the bracket of "significant risk" is self perpetuating ie. the main risk factor in projects not happening, or ending in project failure, is Ofgem guidance on underwrite and its framework for setting fully cost reflective use of system charges, and locational signals, which will result in crippling charges for island based projects.

Ofgem propose that the cost of any background studies/surveys on connections to Scotland's islands must be underwritten by developers in the islands. The work involved would play a significant part in reducing uncertainty as to the feasibility of such connections. The projects involved are few in number and the costs involved are relatively small compared to the capital costs involved in UK grid upgrades. It is our view that Ofgem should put all study activities into the same category, as all reduce uncertainty for the consumer. Costs should be recoverable by transmission licensees from the UK consumer base. The effect of such a move on consumers bills would be so minute as to hardly register. It must surely be part of Ofgem's remit to reduce uncertainty for the consumer. There must also be a role for government in reducing uncertainty. It is argued that paying for these studies will demonstrate commitment. Surely the front end risk of gaining planning consent and finance for a large scale wind farm is demonstration enough by island developers.

Ofgem's overall view is underpinned by consultancy work conducted by SKM. First and foremost we are disappointed that no contact was made with developers in the islands and/or local authorities regarding SKM's work. This should have been essential given the wide ranging implications arising from the interpretations made by SKM.

SKM provides an outline "business case" which indicates in favour of the Western Isles connection but against Shetland/Orkney. The "case" is built on debatable parameters. The average energy price, set at £45 per mw/h is open to debate. Current market values are as high as £80.80.

We would be interested to understand the reasoning behind the selection of 15% as an interest rate for a generation project. 20 years is suggested as the lifetime of any windfarm. Surely there is an expectation that the windfarm assets will be renewed and replaced against the background of an adjusted, post ROC, market. If we don't anticipate renewable generation, in the areas of best resource, beyond the expiry date of ROC's then it would appear that everyone is wasting their time. Global warming won't be solved in 20 years.

After 20 years there must be a strong expectation that wave and tidal technologies should be in place, otherwise the consultants know something that the DTI and the Scottish Executive don't. If we expect wave and tidal technologies to be in place then we would expect system utilisation and demand from those technologies either to replace onshore wind or, more likely, to provide an additional need for capacity.

The "business case" takes no account of the loss making diesel generation kit in Shetland which any cable link would replace. Furthermore the "business case" fails to take account of SSE's obligation to replace the aged diesel generation plant at Lerwick Power Station. It would appear to make sense for the consumer to apply both of these scenarios to a wider business case.

Wind generation by its nature, is intermittent. The "business case" doesn't take-in a strategic view of locating generation in areas with very different weather patterns. When it is windy in Shetland it is often calm further south and vice versa. Shetland could help to balance out the intermittency of renewable generation further south in the UK.

It should also be noted that, based on existing windfarm data, an onshore windfarm in Shetland could produce 60% more Mw/h with 35% lower capital costs than grant assisted offshore windfarms situated off the English coast. Greater efficiency should be in the interest of the consumer and the taxpayer.

Our response to NGT pricing methodologies, which is highly relevant, is attached as Appendix 1.

It appears to us that a significant barrier to entry is being placed in the way of renewable generation from Scotland's islands. It appears that such a barrier is not faced by mainland based developers and as such the market being created doesn't promote fair competition.

Once again, thank you for the opportunity to comment.

Aaron Priest
Principal Development Officer
Shetland Islands Council

NGT
GB Transmission Charging:
Final Methodologies Consultation

Thank you for the opportunity to comment. These comments are submitted on behalf of Shetland Islands Council. We also endorse the comments of Highlands and Islands Enterprise on behalf of the local members of the Highlands and Islands Transmission Working Group.

Overall, NGT (and Ofgem's) approach to charging seeks to punish generators of renewable energy in the areas of best resource, namely Scotland's island groups. Whilst you have only given the Highlands and Islands a cursory passing mention in your consultation, it is clear that the charging mechanisms are not good news for island located developers.

Punitive charges, by their nature, are discriminatory and will restrict and prevent renewable energy from Scotland's Northern and Western Isles from entering the market. The charges resulting from your proposed methodology will have a material and adverse impact on new renewables development in Scotland's islands.

The only comfort we can take from your consultation is the fact that the Government has had the foresight to retain powers in the Energy Act to cap your punitive TNUoS charges. However, no firm indication has been provided on how this mechanism will be exercised. In the absence of clarity on the operation of any capping measure, Shetland Islands Council must oppose methodology which will result in making the exploitation of Shetland's world-class wind resource uneconomic.

Shetland Islands Council through Viking Energy Ltd is in the unique position of developing a large-scale wind project on behalf of the Shetland community. This is to be a 300+Mw windfarm, under community control and which will be developed in conjunction with a utility shareholder, who would also be the project's customer via a PPA. The implications of your methodologies are a TNUoS charge on a Shetland/Orkney interconnector exceeding £50 per kw. On top of this we would be faced with the prevailing north of Scotland charge. The combined charge is clearly absurd. Effective business planning is impossible if the biggest cost is not yet known and when the likely level of such a cost is patently ridiculous.

The charging methodology seeks to send locational signals which effectively discriminate against this community and drive development nearer to the point of end use ie centres of population. The nearer these population centres you go the less efficient the wind resource is and the greater the number of back yards people wish to protect from wind turbines become. The proposed charging methodology will therefore help those who seek to damage the case for wind generation and renewables.

The wider arguments that Scotland will be funding the vast bulk of the UK's transmission charges and that such charges will act as a massive disincentive to developing renewables north of the border will, no doubt, be well articulated by others. Your methodology simply hands a well founded and handy source of ammunition to the Government's political opponents.

The Government has a very positive agenda on global warming and has intervened in the market place to encourage renewable generation. It also seeks ways to spread economic growth and wealth creation throughout the nation via devolved government and regional

policy. It seems a little perverse that your methodology will prevent renewable generation in the areas of best resource and sends locational signals which reverse the logic on regional development.

Hydro benefit and the mechanisms to replace it are deemed to be incompatible with methodologies on transmission charging. Connecting islands also seems to be at odds with the wider methodologies and should, we think, be considered via a separate Government order. There are two island groups involved ie the Northern Isles and the Western Isles. It shouldn't be difficult to provide a separate mechanism in two demonstrably unique cases.

For example, Shetland has an ageing diesel fired power station generating and distributing power at a considerable annual loss, to a local customer base. SSE will be obliged to replace this aged asset at a considerable capital cost. It would appear to make economic sense to apply such an investment towards the cost of a cable connection. Your narrow methodologies take no account of opportunity costs. We also feel that Shetland, due to its northern location, will help to balance out intermittency of wind generation in the UK as a whole.

I hope you find these views helpful.

Aaron Priest
Principal Development Officer
Shetland Islands Council