



## Highlands & Islands ENTERPRISE

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Dear Mr Hull

### INITIAL CONSULTATION ON FOURTH TRANSMISSION PRICE CONTROL REVIEW

Thank you for the opportunity to respond to the above consultation. As you may be aware, Highlands and Islands Enterprise is the Government's agency responsible for economic and social development across the northern half of Scotland. This area is home to some of the best sites for onshore wind, wave and tidal energy. HIE believes the development of the area's substantial renewable resource will offer a wide range of downstream benefits to both its businesses and communities. HIE has taken a close interest therefore in the development of transmission charging and related policy, given the impact it will have on future renewables development in this area.

HIE is also a member of the Highlands and Islands Transmission Issues Working Group which is made up of interests from across the area (including Shetland, Western Isles, Orkney, Highland, Moray and Argyll & Bute Councils) as well as Government, industry and Ofgem. The local partners in that group, in particular, share HIE's concerns in relation to the impact of transmission charging policy.

At this stage, we would like to offer the following comments on the initial consultation.

#### **Predicting the future need for transmission capacity**

Difficulties in predicting use of the transmission system for a five year timeframe are not limited to renewables-related investment. Stranded assets have even occurred in the case for example of unoccupied business facilities. HIE considers that it is inherent in the 5-year price controls that unexpected spend will arise. Indeed, "unexpected" savings are arguably an inbuilt and essential feature of the controls.

Measures which will reduce uncertainty include:

- Unambiguous government policy
- Response to government policy by the grid operators and owners
- Better clarity on which projects will and won't go ahead.

There has been progress on these points and HIE simply notes ongoing work in these areas. In particular it is very clear that government is expecting significant increases in renewables generation.



Nonetheless, some degree of uncertainty on where generation will be located, and when, is likely to remain. New renewables plant such as wind energy is modular, relatively fast to construct, and has a wide deployment range. These characteristics differ from conventional plant and in many respects allow cost savings where long lead-time plant do not.

Therefore HIE would very much welcome measures which allowed grid operators and owners to be flexible in the way in which they respond to the current growth in renewables and embedded generation. Government targets will very likely be compromised should the grid companies not be in a position to respond to this growth in a timely fashion.

### **Financial commitment for connection applications**

Significant financial commitments for connection are already required, and have in the past served to limit applications to those which have a high probability of progressing. However, in Scotland in particular, there is a long queue for connections and it is unlikely that all those in the queue will proceed. The queue has been driven by (a) competition for grid capacity amongst wind farm developers (b) The cut-off date set by NGT for pre-BETTA connection offers.

HIE believes that simply requiring more onerous financial commitments without addressing the policies which have fuelled a rush for grid connection capacity would be disingenuous. These policies include NGT's own policies on capacity allocation, as well as its approach to risk (i.e. NGT will not for its part financially guarantee a promised connection). They also include policies outwith NGT's control such as planning permissions. HIE believes that an important part of managing the queue for connections should include some co-ordination between planning permissions and grid availability and/or prospects.

The consultation mentions bonds for any future non-payment of use of system charges. HIE considers that an essential element of UoS charges is that they do not present an up-front financial barrier to connection, which has been the key rationale for moving away from deep charges. Given government policy for expansion of renewable generation, the risk of renewables projects not proceeding after substantial investment has been made in the connection is not great.

HIE acknowledges that there will be some element of risk in providing infrastructure, but if NGT is to take a totally risk-free approach to its business, then this should be reflected in financial assumptions elsewhere in the price control.

### **Additional Issues for the Initial Proposals document**

#### **Non-firm connections and constraint**

The system is currently planned and operated on the basis of firm connections: i.e. contracted connection capacity is available at all times (with some exceptions for embedded generation and to cope with the conversion to BETTA). This approach makes more sense for high load factor plant. However, low capacity factor renewables (wind, wave, tidal stream, some hydro) do not generate all the time. The economic efficiency of a GB transmission system which includes intermittent renewables may well be improved by allowing some form of non-firm connection.

This could be justified either as a long-term measure, or as a short-term measure to allow generation projects to proceed before transmission reinforcement is in place. Short-term non-firm capacity while waiting for transmission reinforcement is a normal practice in the US, and there is even an example of it in Northern Ireland.

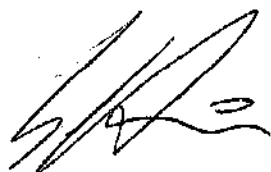
HIE recommends that the second consultation include a review of appropriate incentivisation of provision of non-firm capacity where it promotes timely provision of capacity and system efficiency.

**Islands**

The second consultation should set out the options for dealing in TPCR4 with possible extension of the transmission system to islands (in practice, the Western Isles, Orkney and Shetland).

We hope you find these comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. Harrison', written in a cursive style.

**Graeme Harrison**  
**Senior Development Manager, Renewable Energy**