



Highlands & Islands ENTERPRISE

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Transmission Price Control Review team
Ofgem
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Dear Colin

Transmission Price Control Review

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

As you are aware, the Highlands and Islands of Scotland are home to much of the UK's renewable energy resource. Development of that sector is a key priority for HIE, the Government's economic and social development agency for the area, given the wealth of economic development opportunities it could offer. For that reason, HIE, and its local partners (Shetland Islands Council, Orkney Islands Council, Comhairle Nan Eilean Siar, Highland Council, Argyll & Bute Council and Moray Council) have taken a close interest in regulatory developments and have responded to a number of consultations issued by Government, Ofgem and NGC.

The following response majors on the price control implications of load related capital expenditure by the electricity transmission businesses, and specifically on measures which facilitate access to the renewable energy resources of the Highlands and Islands.

Overall, HIE is supportive of the approach taken for the forthcoming price control period. HIE strongly agrees that new approaches are required in the context of significant, and ongoing, changes to the way in which we produce and use energy. Renewables are a major part of these changes, but it is clear that strong action on renewables is in part a required response to other events in the energy industry: ageing assets, rapidly increasing fuel prices, worsening energy security and of course, environmental concerns.

Our response to specific questions in the consultation follows.

1.1 Price control cost assessment and general policy issues

Question 7.3: Is our assumption on efficient connection design for wind generation, and the associated reduction to some of the company cost forecasts, appropriate?



The proposal is suggesting implementation of efficient connections, which can be interpreted as low cost connections, with reduced system charges to reflect this. HIE is in favour of this approach, and considers it appropriate to include it as a reduction to the company cost forecasts.

***Question 7.4:** Do you think that we need to allow explicitly for the possibility of reopening the price controls for specified single events where the timing and level of costs is uncertain and driven by third party decisions? If so, what might such events be and why?*

HIE agrees that it would be appropriate to re-open the price control for the Scottish Island connections and associated on-land reinforcement work. HIE has commissioned work to undertake further cost evaluation of the connections to the islands, which will be finalised in the autumn of this year. HIE would welcome an opportunity to discuss its findings with Ofgem. By enabling the price controls to be reopened for such events, the regulatory regime is showing welcome flexibility.

***Question 7.5:** What do you think of our proposed options for setting incentives for efficient capital expenditure?*

The proposal presents several incentives for efficient capital expenditure which include revenue drivers for load related expenditure, rolling incentives for non-load capital expenditure, sliding scale mechanisms and a shallow incentive rate. HIE is in support of schemes to encourage efficiency, discourage underspend where appropriate, and to be flexible enough to accommodate future change.

1.2 Adjustment mechanisms and incentives: electricity

***Question 10.1:** Is our proposed two-part revenue driver design appropriate and proportionate to the issue it is seeking to address?*

The proposals seem sensible in so far as HIE is not in a position to dispute that revenue drivers are sufficiently different for local and deep reinforcement works. However, it will be important to ensure that necessary interactions between local and deep reinforcement works are maintained – for instance that any local works which rely on deep works, or vice versa, are not unduly delayed because of the different revenue drivers.

***Question 10.2:** What are the costs and benefits of seeking to facilitate greater competition between providers of transmission services, in respect of the prospective transmission links to the Scottish Islands?*

HIE believes that it is desirable to promote competition between providers of transmission services. This approach should lower costs which might enable marginal projects which otherwise would not be financially viable, to go ahead. Presented below, and repeated from our response to the Third Consultation, are two examples of projects which have been built on a “merchant” basis:

- The NorNed cable (which has benefited from European funding¹)

¹ The funding was for priority connections between EU states which would not apply for connections within a state. Nonetheless, alternative European funds may be available for the islands, especially for innovative approaches.

- The Basslink cable to Tasmania (the contract for which the UK's National Grid successfully bid).

It is worth noting that on the Basslink project, National Grid states that:

"Basslink will offer an alternative to existing electricity supply in Tasmania and Victoria. As such, it will increase competition and put downward pressure on prices in both States. By opening up the Victorian market to Tasmanian producers, Basslink will encourage innovation and investment in capacity in Tasmania, particularly for green, clean wind power"

And that:

"The increased capacity and security of supply in Tasmania will enable the State to seek further investment in high-energy users such as manufacturing."

And that:

"Basslink will enable Victorians and other States to access electricity generated by the substantial renewable energy sources – hydro and wind – from Tasmania. By choosing green, electricity, consumers in Victoria will impact the amount of the greenhouse gases, such as CO₂, that is produced. The bigger marketplace will also encourage additional investment in green energy, in particular wind." [3]

Question 10.3: *Is our proposed approach to funding for innovation appropriate and necessary?*

Yes – HIE welcomes the allocation of an R&D fund for innovation and reporting requirements. It may also be appropriate to allow for deviation from set operational parameters for demonstration of new technologies.

We would also reiterate our response to the Third consultation, namely that the importance of innovation by transmission licensees is demonstrated by the European Commission's "Technology Platform" dedicated to future electricity grids, or "Smart Grids" [4, 5]. This encompasses not only the infrastructure itself, but operational tools, metering, demand-side management and many other areas. In seeking to integrate increasing penetrations of wind energy, the GB transmission licensees will need to consider the use of, for instance, DC technology largely dedicated to the delivery of wind energy, integration of storage solutions and short-term forecasting of wind energy for system operation purposes.

1.3 Environmental considerations

Question 12.1: *Do you agree with our assessment of the main impacts of the transmission system? What are the most important impacts from the perspective of consumers?*

HIE is commenting on the electrical network aspects only (as opposed to gas). Yes, the main impacts of the transmission system appear to be covered. In considering environmental impacts, it is important to consider the electricity system as a whole, i.e. the environmental impact of generation and demand as well as the transmission and distribution lines. In this respect we welcome the recognition of a trade-off between line losses and the promotion of cleaner generation in the north of Scotland.

Ofgem states that it is minded, in general, not to allow expenditure for undergrounding of transmission lines. HIE would caution that while the cost differentials are large, there may be a case for undergrounding in certain circumstances if the alternative is a refusal of a transmission line planning application. This may be an area which could be subject to a price control re-opening, as to exclude it outright is to pre-suppose the outcome of trade-offs between visual amenity and the willingness of customers to pay for this.

Question 12.3: Should there be additional measures to promote innovation in support of environmental benefits, either as part of the proposed incentive scheme for innovation for NGET, SPT and SHET or as a separate measure?

HIE supports the use of mechanisms to promote innovation in support of environmental benefits.

We hope you find these comments helpful.

Yours sincerely



Elaine Hanton
Head of Renewables

On behalf of a Highlands & Islands partnership comprising:-
Highlands & Islands Enterprise
Shetland Islands Council
Orkney Islands Council
Comhairle Nan Eilean Siar
Highland Council
Moray Council
Argyll & Bute Council