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Dear Mr Hull

CONNECTING THE ISLANDS OF SCOTLAND RESPONSE TO OFGEM OPEN LETTER

Comhairle nan Eilean Siar (CnES) welcomes the opportunity to respond to Ofgem on the 'open letter' setting out high level thinking on the options available for regulatory connection to the islands of Scotland. CnES also welcomes the acknowledgement by Ofgem that the islands of Scotland benefit from some of Europe's largest wind and marine resources, which have prompted many renewable energy generation developers to seek to locate in the islands. In the case of the Western Isles, two large scale applications for onshore wind developments of 650 and 160 MW are currently awaiting decisions from the Scottish Ministers, having been given positive responses from the Comhairle. A third large scale application for approximately 200 MW had recently been lodged with the Scottish Executive. In addition, applications for approximately 30 MW of smaller scale developments on the Western Isles are currently at various stages of development.

The Comhairle sees the development of our renewable energy resources as being of crucial importance to the socio-economic wellbeing of our islands and also as a means whereby renewable energy targets at UK and Scottish levels can readily be achieved. We note with interest your awareness of the wider benefits which a connection to the mainland transmission network would bring to potential developers and other stakeholders.

As is clearly set out in your letter the current regulatory framework is not conducive to timely and cost-effective connections to the islands. CnES is a member of the Highlands and Islands Transmission Working Group (H&ITWG). A joint paper has been developed by Xero Energy on behalf of Highlands and Islands Enterprise, and the three Islands Councils for Orkney, Shetland and the Western Isles. The joint paper looks at how the barriers to connecting the Scottish Islands to the existing transmission network can be removed. The joint paper has already been sent to Ofgem and is available at <http://www.hie.co.uk/islands-grid-strategic-view.html>. The comments which follow and which relate specifically to Western Isles interests below should be read in conjunction with the joint paper, and also the response on behalf of the H&ITWG.

CnES notes the ongoing commitment by Ofgem to give consideration to the provision of connections to the Scottish Islands. We would point out the importance to the islands and to prospective developers of ensuring that any new regulatory framework is put in place timeously and that, furthermore, it will, as far as possible, facilitate actual physical provision of connections as quickly as possible.

Whilst the primary duty of Ofgem is acknowledged to be to protect the interests of consumers, we note that your wider duties, including promoting sustainable development and the environment, will also be taken into account in deciding on an appropriate regulatory option. To that end, we would suggest that timeous connections, as well as a framework which would reduce uncertainty need to be viewed alongside a straightforward least-cost approach.

In designing a new regulatory framework account should be taken of those developments which are currently 'in the system', as well as those outwith it at present. As you will be aware SHETL have already undertaken a preliminary consultation on connections between the Western Isles and the mainland, based on two major developers who have applied for a connection, together with some smaller scale community proposals. This does not take account of the third major development referred to earlier as the developer has not applied for a connection. The position is further complicated by the fact that one of the two developers who has applied for a connection has only recently applied for consent under Section 36 of the Electricity Act 1989, unlike the developer who has not yet applied for a connection but has made an application under the Electricity Act and is awaiting a decision from the Scottish Ministers. Account also needs to be taken in designing a new regulatory framework of future developments to facilitate upgrading of connections at a future date, for example to make use of wave and tidal resources.

The Western Isles are at present connected to the mainland by two relatively small cables which will have a limited life expectancy. Notwithstanding our desire to see new cable connections to deal with 'bulk transfers' from large scale developments, the need to replace the existing cables within the short to medium term needs to be factored into a new regulatory regime.

Turning to your proposed options I would refer back to our letter to you of 2 November 2006 in which we indicated that our main concern is to have appropriate connections provided as quickly as possible, rather than who or how the link is provided or to where it is taken. Thus I would reiterate that we would support any mechanisms which would provide appropriate connections more quickly, than the status quo, including merchant approaches. Therefore whilst we would certainly welcome competition as a means of reducing costs and delivering efficient investments approach there is a possibility that the option (c) approach in particular might need to be simplified if it was not to cause further delay due to complexity, perceived or real.

We would also encourage Ofgem to adopt an approach which would facilitate the development of a national network fit for the next fifty or so years, rather than merely adding onto a network which was designed with previous generation in mind. Such

an approach could allow for example for the provision of a cable route from the Western Isles to the central belt of Scotland, as part of a revitalised national transmission network, rather than connections straight across the Minch.

It may be the case that the three different Scottish Islands need variants on a common approach to take account of the individual circumstances. A degree of flexibility would therefore be helpful.

Finally, we are grateful for your indication that the open letter is the first step in your consideration of how to provide for potential investment in connections to the Scottish Islands. We would be pleased to meet with you in the near future to discuss how the matter can be progressed and look forward to working with Ofgem to take the proposals to the next stage.

Yours sincerely

Derek McKim
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