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Dear Robert,

Consultation: Connecting the islands of Scotland

EDF Energy is pleased to have the opportunity to respond to the consultation on HV connections to Scotland's islands.

We welcome Ofgem's preference for competition and recommend **(b) Merchant approaches: privately financing a connection to the main system.**

We reject the (a) Status Quo and (c) Tendered Price Control approach.

By adopting the merchant approach, Ofgem will be acting in the best interest of consumers.

Our view can be summarised as:

1. Island connections are more akin to interconnectors rather than transmission
2. Island generators should be liable for the cost of the interconnection as it will not be shared with other Users;
3. The generator can specify the design standards to ensure that the most economic and efficient design is built at a cost the generator(s) can afford;
4. The cost of the cable should be funded by the generator from the support it receives from the Renewables Obligation (RO), rather than being an additional cost to consumers;
5. The price control approach for offshore connections is not suitable for island interconnections;
6. Existing transmission charging approaches (TNUoS charges) will not be affected by the merchant approach.

We hope these comments have been of help, if you have any questions please do not hesitate to ask.

Yours sincerely,

David Scott
Electricity Regulation
Energy Branch

OUR REASON FOR COMING TO THIS VIEW

Island connections are more akin to interconnections rather than transmission

Interconnectors are separately defined from the Transmission System (they have been regarded in many ways as pseudo-generators) and these island circuits are not dissimilar; they are connecting the wind farm or island to the GB Grid system. Admittedly those from wind farms will only be one-way interconnectors, but they are still akin to any two-way interconnector. Albeit that system to system interconnectors are more often than not (but not necessarily so) two-way interconnectors, they are only so because you are overlaying a pseudo-generator in each system and then connecting it to the other system. Even with superposition, you can separate out the trades such that the generation in one market is operating in the other system's market. The demand in the other system is not an issue, it has nothing to do with the home system, with interconnector trades being for generator trading. An interconnector is no different to an off-shore/island generator wanting to connect to the grid system and, as such, they should be regarded as separate from the Transmission System (and its charging).

Island generators should be liable for the cost of the interconnection as it will not be shared with other Users

We believe that if generators are liable for the cost of connection only the most viable generating stations, in the most efficient locations, will be built. Locating generating stations on Orkney, the Shetlands and Lewis will result in massive investment in infrastructure to transmit the electricity to centres of demand in the South. A cable connecting Stromness (Orkney), Lerwick (Shetlands) to Thurso (Mainland) would be 170miles in length, in addition to the 500-600miles of transmission infrastructure between Thurso and London.

On the GB mainland, much of the transmission system is shared between numerous generators and demand, such that the cost is charged between these two groups of "Users". For a sub sea cable between Orkney and Scotland the only "User" will be the island generator exporting power to the Main Interconnected Transmission System (MITS). It is unreasonable for the other Users of the system to have a charge placed on them for this cable.

The generator can specify the design standards to ensure that the most economic and efficient design is built at a cost the generator(s) can afford

The transmission system is governed by the Security and Quality of Supply Standards (SQSS), which set the design standards for: generator connections (section 2); and investment in the main interconnected transmission system (section 4). These standards for generator connections specify redundancy in such connections, principally through a double circuit. The designs cannot be varied, unless the User requests a variation with it not affecting on the security of the MITS. At present there is no incentive for generators to accept such a variation to the connection as charging methods do not entitle it to a discount. By allowing the interconnection to be specified by the generator(s), (assuming that the connection to Orkney or Lewis will not affect the security of the MITS), it can consider an appropriate level of security against a cost it can afford.

The cost of the cable should be borne by the generator from support it receives via the Renewables Obligation (RO), rather than being an additional cost to consumers;

The Renewable Obligation places costs onto suppliers to support the deployment of renewable generation. We believe that renewable generators must weigh up the necessity to locate in isolated and remote locations (to increase output) against the cost of transmitting the output to market. If costs of transmission are not adequately borne by the generator(s) it will be commercially viable for renewable generators to locate in places where the transmission costs should have been prohibitively expensive. Support for renewables, and therefore the cost to the consumer, should be explicit and not be delivered by distorting transmission charges.

The price control approach for offshore connections is not suitable for island inter connections;

Ofgem has proposed a non-exclusive price control approach for offshore generation connections. We would have preferred to have seen a merchant approach to offshore generation connections as they are interconnection assets for sole use by the generator. Our opinion is no different for island connections, but reinforced by the following:

- Due to their remote location from demand, except where offset by increased renewable resource island connections will be extremely marginal in their commercial viability – a price control may be considered subsidy by the back-door;
- Due to the likely volume of offshore generation connections a standard offshore SQSS is required. In contrast there will be few, very expensive island connections so generators should specify the design of the interconnection on a merchant basis.

Existing transmission charging approaches (TNUoS charges) will not be affected by the merchant approach.

The merchant approach will require the generator(s) to contract directly for the connection to the mainland with a transmission company. Other Users, including existing generators and demand, will not be affected by the contractual relationship between the generator(s) and the transmission owner. Existing Users will not be liable for greater TNUoS charges as the value of the island connection will not be included in the regulated asset base of the three onshore transmission owners, NGET, SPTL and SHETL.

Ofgem's other proposals (a) 'The status quo' and (c) 'Tendered price control' would have significant ramifications for other Users of the transmission system, as costs would definitely be passed through into TNUoS charges under (a) and may be passed through under (c). EDF Energy has concerns that the proposed Offshore Networks price control approach will lead to some "socialising" of costs with increased TNUoS charges to other Users: we strongly recommend that this is not allowed to occur both for offshore generator connections and island connections.