ORKNEY RENEWABLE ENERGY FORUM
www.oref.co.uk

Gareth Davies
Orkney Renewable Energy Forum
c/o ICIT
Back Road
Sromness
Orkney
KW15 3AW

Robert Hull
Ofgem Director - Transmission
9 Mill Bank
London SW1P 3GE
E-mail: robert.hull@ofgem.gov.uk

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Dear Mr Hull

Zonal charging for transmission losses

OREF represents a wide range of bodies interested in the development of renewable energy in Orkney and has taken an interest in strategic issues that affect Orkney as well as other parts of the UK energy supply chain.

Over the last few years there have been a series of discussions around locational signals to power generation and zoned charging regimes.

Through these various consultations and meetings we have sought to try and understand Ofgem's position. We understand the primacy in Ofgem's view of "delivering energy as cheaply as possible to the consumer", but we do not believe that this is in fact in the best interests of either the consumer or the country as a whole.

Cheap energy is a short term panacea. It is hiding from people the true cost of energy supply, since adequate provision for replacement of existing infrastructure and fuel reserves are not being made. It is also exacerbating the CO_2 emissions situation by encouraging us as the public and business to use more and more energy precisely because of the low cost. It is also delaying the reorientation of the UK's energy supply network from centralised generation to dispersed generation – a move that will considerably increase energy security.

Last weeks floods also showed how parts of the existing energy supply infrastructure are poorly located with regards to risks from changing climate patterns and we have yet to see the full effects of a major storm surge on, for example, the Thames area. With the already announced requirements for new generation capacity now is an excellent time to reconsider how we provide, distribute and use energy – particularly electricity.

We have lobbied hard for Ofgems remit to be adapted to better match today's energy requirements and we strongly believe that this is essential for the UK to efficiently and effectively meet it's energy challenges.

However, in the meantime, we have always endeavoured to engage positively with Ofgem to achieve outcomes within the existing game plan that are as beneficial as possible to Orkney and to the wider country.

We greatly appreciate the establishment of Orkney as an RPZ and have been heartened by the recent consultation on island connections. These have shown the benefits that can come out of innovative, joined up thinking. There are now real moves taking place for a new grid connection to Orkney, which we welcome, but the cost of ever using this infrastructure is still an issue.

One of our members FSOL, in their submission, have provided a more detailed assessment of the financial disadvantage that the punitive charging regime creates and have shown that in terms of

overall efficiency in energy production and CO_2 offset the belief that energy produced near SE England demand centres is better, is misguided.

The Scottish Renewables Forum in their response have also pointed out that for wave and tidal energy the capacity factors in the north of Scotland may in fact be much more similar to those around SE England. The added costs from transmission charges will not therefore be in any way an offsetable disadvantage.

We support both of these responses and will therefore focus our response upon the signal that these charging mechanisms are sending to potential investors in the UKs future energy systems and upon an alternative charging philosophy.

Investment signals

There are people passing through the Orkney and other areas in the north of Scotland on an almost weekly basis, wanting to invest in renewables and particularly marine renewables. The reason they are here is the estimated 25-35 TWh of annual renewable energy power potential available from the Highlands and Islands. It is not hard to imagine their response when they learn of the charging regime that is in place for transmitting electricity and the level of costs that will be incurred.

Any investor is looking for signals that the fiscal regime will be stable and fair.

This latest charging signal creates doubts in investors minds over the willingness of the UK to encourage renewable energy developments, reduces confidence in the stability of fiscal arrangements and further exacerbates the unfairness of the charging regime for transmission of electricity. There are already examples of investment, technologies and initiatives that have not come to Orkney or the the UK because, in part, of such signals!

We wonder whether the following signals are at play in other parts of the energy market?

- Does the system charge gas suppliers for the losses of gas between the reservoir and the delivery point, or does it cost more to deliver gas at St Fergus than at Dimlington?
- Does the system charge wind turbine operators in the south of England for the generation capacity they are loosing by not having the turbine in a better wind regime – ie it works at 28% efficiency instead of 40%+ in northern Scotland and 50%+ in Orkney?
- Does the system charge thermal power stations for the heat lost up the chimney?
- Does the system charge nuclear power generators for any wastes they produce where public money has been or will be involved in finding a disposal solution?

It feels at the present time that electricity from the Islands and the north of Scotland is being unfairly penalised when the delivery of renewable energy from these areas is a national strategic priority.

There have been a number of positive steps over recent years but measures such as the charging for transmission losses serve only to undermine investment confidence for a relatively minor signal in monetary terms but a major signal in terms of alignment of purpose.

An alternative charging philosophy

The whole question of locational charging can also be looked at from the supply perspective. As one of our members has pointed out - Why penalise energy suppliers who are situated where the resources are? Why not encourage users of energy to relocate to where energy supplies are abundant. The presence of the coalfields, for example, led to the creation of many of our cities. Should we therefore create a zonal charging mechanism for demand - following the exact same principles as the zonal charging for generation? In this scenario people in areas of energy surplus would pay less than those in energy deficit. Consequently customers in the South East of England, where there is an energy deficit, would pay significantly higher charges for the energy they consume, whilst customers in Scotland, where there is an excess of generation, would pay much less for their power. This would create an alternative locational signal. A key point is that if such a scheme seems crazy when viewed from a demand perspective, then the same can be said of transmission losses and TENUoS charges from a supply perspective.

Conclusion

We would strongly urge that Ofgem reject the proposed amendment to the regulations and this latest locational signal for electricity generation. Instead Ofgem should redouble its efforts to engage in a positively with the island communities and the renewables sector to help deliver the huge quantities clean energy that are available in the Highlands and Islands. We have shown already that by working together for common aims significant progress can be made and we look forward to future opportunities to address the immense challenges that still remain.

Yours sincerely

Gareth Davies

Chair, Orkney Renewable Energy Forum.