

DEPARTMENT OF DEVELOPMENT SERVICES

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20 July 2007

Robert Hull
Director – Transmission
9 Millbank
London
SW1 3GE

Dear Bob,

“Connecting the Islands of Scotland”

Orkney Islands Council (OIC) welcomes the opportunity to respond to Ofgem’s above consultation. The Council is part of the Highlands and Islands Transmission Group (HITG), whose response to the consultation the Council supports. A joint paper has been produced by Xero Energy, on behalf of HITG considering regulatory constraints to the development of island grid connections. The following comments should be considered alongside this document which is available at <http://www.hie.co.uk/islands-grid-strategic-view.html>

The Council is very pleased that Ofgem is directly addressing the problem of developing the necessary infrastructure to transmit renewable energy from the Scottish islands to the principal markets in the south. Orkney, like the other Scottish islands, has huge renewable energy potential, and the Council wants to see this developed in an appropriate and sensitive manner, for the benefit both of Orkney and of the UK as a whole.

Renewable energy generating capacity has developed in Orkney to date through small scale on-shore wind power projects, because of the restrictions on grid capacity. One significant application has been made by a private developer for a connection from Orkney for on-shore wind generation with further applications from local land owners and community groups under SSE’s Regional Power Zone. Marine renewable technologies, being tested at the European Marine Energy Centre are at various stages of commercialisation. The development of first generation commercial opportunities, arising from these trials, within Scotland’s waters is being hampered by a lack of grid capacity. Realising island connections will require new frameworks to plan and fund the required infrastructure. The Council is therefore encouraged that Ofgem is looking at special arrangements for the islands.

In addition there is considerable concern about the level of TNUoS charges being rumoured for the islands. It is estimated that prospective TNUoS charges in Orkney add £4 million per annum cost to a 100MW project – a significant financial burden compared with Mainland charges. Such a charge will inhibit development in the islands. The Council is disappointed that to date, there is no evidence of serious intent to use the capping powers for TNUoS charges for the islands to take into account the higher specific interconnection costs associated with sub-sea connections. The three island authorities and HIE have made representations to the DTi on the S.185 cap. Uncertainty on how it will be calculated and the current five yearly review period do not provide sufficient comfort for developers.

Ofgem acknowledges that significant work will be required to fully develop a coherent regulatory approach for the islands. Orkney Islands Council is eager to ensure that Ofgem establishes a regulatory framework that is both fair and timeous and does not disadvantage island developments. The Council urges Ofgem to ensure the consultation process develops at a pace and solutions are found that do not delay or hamper current island developers.

Options

As a general principle, the Council welcomes competition as a means of reducing the cost of island connections.

a) The Status Quo

Of the options in the consultation paper, the status quo suffers from many issues associated with the monopoly approach, and could well prevent the development of Orkney's renewable energy potential. Under existing arrangements, SHETL has no incentive to seek more cost effective solutions nor be able to cater for multiple projects.

b) Merchant Approaches

The second option, the 'Merchant Approaches', would appear to offer the potential for a variety of interested parties to come together to co-operate in the provision of additional transmission capacity. This has attractions through the provision greater challenge than under the existing regime. Flexibility on system security, including single circuit options should be considered were this option to be pursued.

c) Tendering

The third option, Tendering the Right to Build a Connection, would still seem to depend on aggregating a critical mass of generating capacity to trigger it, and this could still be a problem in Orkney. But it does offer the prospect of a competitive solution and price for delivering a new connection between Orkney and the Mainland. Ofgem would need to be satisfied that, under the model it proposes significant cost savings would be expected and resulting connections achieved within reasonable timescales. The approach suggested appears complex and may not result in genuine improvements to either consumers or developers.

The Council would encourage Ofgem to pursue these and any other options for a new Orkney connector. It may be that different solutions are required for each of the islands and it is therefore important that proposals are developed that provide both costs and time benefits beyond that provided under current regulations. It is in everyone interests to establish cost effective connections to the islands and the Council wants to see Orkney play its part in achieving the Government's objectives for renewable energy, especially through the development of marine energy, and it can only do this if new ways are found to develop the necessary infrastructure.

Yours sincerely,

Jeremy Baster
Director.