



Highlands and Islands Enterprise
Iomairt na Gaidhealtachd 's nan Eilean

Colin Green
Ofgem
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London
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4 September 2007

Dear Mr Green

**Ofgem/BERR consultation on Offshore Transmission Networks
Response by Highlands and Islands Enterprise**

Thank you for the opportunity to respond to this consultation on the Ofgem/BERR policy statement on offshore electricity transmission (Ofgem 189/07).

As you are aware, Highlands and Islands Enterprise (HIE) is the Government's agency responsible for economic and community development across the northern half of Scotland. Along with its local partners (Shetland Islands Council, Orkney Islands Council, Comhairle Nan Eilean Siar, Highland Council, Moray Council and Argyll & Bute Council), HIE has taken a considerable interest in, and has responded to a number of consultations on, issues affecting development and access of grid infrastructure. HIE is responding to this consultation as the issues raised in it are likely to be relevant to future wave and tidal energy developments, as well as offshore wind.

1.1 Effect on programme

The stated aim of the competitive licensing approach is to deliver 'the most economic and efficient solution for both consumers and generators'. There is no weight given to programme in this stated aim. This is a general problem with Ofgem decision-making for renewable energy issues.

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Careers Scotland in the Highlands and Islands is part of the HIE network.



HIE is concerned that the proposed process will add significant delays to projects. The main issues are as follows.

Annual tendering process (Chapter 6, question 3)

The proposed annual tendering process is bound to introduce delays for most projects. The justification provided in Chapter 6 of [1] does not seem strong. Therefore in terms of Question 3 of Chapter 6, HIE prefers Option 2.

Obtaining consents (Chapter 4, question 1)

From Sections 3.6 and 4.21, it appears that the generator must obtain its main consents before submitting a connection application, there will then be the tendering process for the OFTO, and the successful OFTO will then obtain all its necessary consents. Therefore these two consent processes will be significantly separated in time, whereas at present they run in parallel. This appears to extend overall timescales significantly, compared to the status quo.

The OFTO may not take the programme risk of delay in obtaining consents, or may include a substantial contingency sum. It may be better for consents to be obtained by the project developer before tendering for the OFTO. However, if this route is followed, it makes it less likely that an OFTO will be able to develop a transmission system that will serve multiple projects.

Greater clarity is required on the likely development and construction programme, including consents, and how the risks of obtaining consents are to be allocated.

1.2 Optimisation of design

The proposed methodology distances the generator from the design of the offshore transmission and network connection, and therefore in principle may prevent optimisation and innovation.

There are several references to involvement of the generator: for example, Section 3.1 states that the generator can vary its requirements above and below the minimum standard. However, it is not clear:

- if the generator will have input to the process for tendering the OFTO licence, in particular the writing of the technical requirements, and if so, how disagreements between the generator and Ofgem are to be resolved;
- if the generator will have input to the selection of OFTO, and if so, what weight its views will carry against Ofgem's need to minimise costs to consumers.

Further, if the generator can agree higher or lower requirements with the OFTO outside the regulatory regime, it is not clear how the costs or savings will be agreed. If this is done after appointment of the OFTO, the generator is in a very weak negotiating position.

Greater clarity is required on the interaction envisaged between the generator and OFTO at the design stage. This is relevant to Chapter 4, question 2.

1.3 Performance obligations (Chapter 3, question 1)

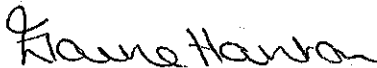
Section 3.25 proposes that a limit is placed on electrical losses. This is feasible, but it would be economically more efficient to set loss capitalisation factors which represent the capitalised value of energy losses to the generator or to electricity consumers. This is normal practice when purchasing transformers, for example.

This will allow the OFTO tenderers to design a transmission system which achieves the economically optimum balance between capital cost and electrical losses.

Compliance with any warranty for electrical losses should be achieved by calculation rather than metering, as the uncertainties in subtraction of even high-accuracy meter readings are of the same order as the electrical losses.

We hope that 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