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Dear Lesley

Ofgem 131/08: Connecting the Scottish Islands – Update

National Grid welcomes Ofgem's decision regarding the favoured regulatory approach for the proposed high voltage link between the Western Isles and the GB Transmission System as it progresses the link to important renewable resources.

The proposed regulatory approach, of reopening SHETL's price control, represents the most pragmatic approach for ensuring the timely connection of the contracted renewable generation onto the GB Transmission System whilst safeguarding consumer interests. Given experience of the time taken to develop the competitive regime for Offshore Transmission developments, we agree with Ofgem's assessment that the development, implementation and adoption of a new competitive approach may unduly delay the utilisation of the renewable generation currently contracted to connect on the Western Isles by 2012/13 which may have an adverse impact on the delivery of the government's 2020 climate change targets.

We agree it is important to balance between meeting the developer's requirements for timely connections and the interests of customers who should not pay any more than is necessary for the connection to be built. However, the reopening of SHETL's price control and the development of an appropriate incentive mechanism to fund the proposed connection works will ensure that SHETL have incentives to select an appropriate design and then build, operate and finance it efficiently.

We have significant doubts whether the benefits which might be delivered by an additional or wider competition covering the financing of the works (i.e. beyond the competitive tendering that SHETL will undertake for the construction of the works) would justify the additional costs, delays and uncertainties created by the process itself. While Ofgem have not attempted to quantify the benefits that might be expected from such a competition, the costs of a one year delay or the one-off costs of establishing a process that addresses the specific circumstances in this case could easily outweigh even the most favourable outcomes in terms of cost of capital.

We await with interest the pending decision on the preferred regulatory framework for the proposed connection to the Shetland Isles; given the legal uncertainty concerning the territorial extent of SHETL's licence and the potential interaction with the pending Offshore Transmission regime

legislation. The outcome may be of relevance to future significant investment proposals required to facilitate the delivery of renewables onto the GB Transmission System which may best achieved through innovate engineering designs.

Yours sincerely

(by e-mail)

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