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Dear Cheryl

Response to Ofgem Enhanced transmission incentives: update and consultation on further measures (110/09)

Highlands and Islands Enterprise (HIE) welcomes the opportunity to respond to the consultation on enhanced transmission investment incentives (Ofgem 110/09). Transmission access is considered highly important by HIE for the economic development of the Highlands and Islands of Scotland.

As you are aware, HIE is the Government's agency responsible for economic and community development across the northern half of Scotland. Along with its local partners who represent the democratically elected local authorities covering the north of Scotland (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, access and management of grid infrastructure. We are also working closely with Scottish Government in relation to a wide range of regulatory issues and are supporting its efforts to challenge the barriers currently blocking renewables development across Scotland.

HIE and its partners are particularly interested in this consultation given the importance and impact on projects in the North of Scotland of being able to secure timely and cost effective transmission access.

HIE is one hundred percent behind the work of the Energy Networks Strategy Group (ENSG) in identifying strategic transmission system investments. We would like to see this work continued and kept up-to-date. Furthermore the classification of "no regrets" investments may also be expected to expand as further projects come forward, especially from technologies such as offshore wind, wave and tidal energy.

HIE is furthermore anxious to ensure that this excellent work is translated into action and actual investments in which Ofgem's role is absolutely key. Ofgem was joint chair of the ENSG and will be well aware therefore of the critical nature of timely investment.

Projects nominated for funding

As such we wholly support allowances for infrastructure during the present price control period. HIE notes that Ofgem intends to employ consultants to assess the TO's project nominations. We would query:

- To what extent there is a need to scrutinise and "allow" investments that fall under the pre-agreed revenue drivers for TPCR4. Ofgem has previously characterised these revenue drivers as a mechanism that allows the TO's to invest flexibly in response to the volume of generation coming forward.

- Where TOs are requesting advance allowances under a "no regrets"-type justification, to what extent is there a need to scrutinise this where the ENSG has already done so? HIE accepts that there may some level of detail that is not covered by the ENSG's work, but the basic "need" case has already been established.

Funding arrangements

It is quite difficult to unravel what Ofgem is trying to convey on the funding arrangements. We would note that the projects nominated for funding and listed in Chapter 2 appear to be for projects where the TOs anticipate strong uptake and / or where user commitment is in place. There may be some natural over-provision for engineering reasons, for instance on the Western Isles link, but if this is in any event the efficient design, we would not consider that this should alter the risk profile of the investment.

At the outset of this work on enhanced incentives, truly anticipatory investment was described as the TOs taking a different attitude to some of the truly risky investments where user commitment might not be in place. This might include for instance areas where large investments are required for small, disparate, but eventually and collectively large numbers of projects. The TO would anticipate this requirement and earn a higher reward in return.

We cannot detect any material progress on implementing these kind of more risky investments in the current consultation. This may be because Ofgem wants to wait for the outcomes of RPI-X @ 20 before making any more reformatory proposals on TO incentives. If this is the case we would question why the RPI-X project hasn't reported any progress on enhanced incentives and what concrete proposals might look like to this Transmission Access Review workstream? Generally we feel progress is slow in this area.

HIE does not agree that this work should be deferred to align with the dates of the transmission price control review. The whole point of the work is to make sure that investments are delivered in a timely fashion, and hence it would be counter-productive to delay the work on formulating a framework for early investments!

We hope you find these comments useful and we look forward to viewing outcomes of this consultation in due course.

Yours sincerely



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On behalf of a Highlands & Islands Partnership comprising:
Shetland Islands Council
Orkney Islands Council
Comhairle nan Eilean Siar
Highland Council
Argyll & Bute Council
Moray Council