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3rd September 2010

Dear Mr. Clifton,

THE NORTHERN ISLES NEW ENERGY SOLUTIONS PROJECT

I writing to you as Scotland's Energy Minister to offer my support for the Northern Isles New Energy Solutions (NINES) project proposal developed by Scottish Hydro Electric Power Distribution to assess and address the challenges of balancing load on electricity networks, with a high penetration of renewable energy.

As you know, in August 2009, Ofgem announced a Low Carbon Networks Fund as part of its price control regime for Distribution Network Owners to encourage and enable DNOs to trial new technology, operating and commercial arrangements which can aid the transition to the low carbon energy sector.

Scotland is in a strong position to demonstrate the benefits from the transition to a low carbon economy and the Scottish Government has set ambitious climate change targets which underpin the strategic direction to this government is taking to secure the transition to a low carbon economy, and to delivering the environmental, climate change and emission reduction benefits from such a transition. The Scottish Government is also keen to support and maximise the community, social sustainability and economic growth opportunities and benefits from such a transition. Our forthcoming Low Carbon Economy Strategy will focus on these, as well as the importance of delivering innovation in energy systems and management as a key part of a low carbon future.

In that context, the NINES project contains important elements of innovation, co-operation between suppliers, generators, technology providers and other parties working to explore how local networks can help deliver low carbon and energy savings, while ensuring security of supply in an increasingly diverse energy supply mix, including a high penetration of renewable energy. The combination in this project of responsive demand side management, with elements of industrial and domestic electricity load, energy storage in an existing and enhanced existing active network (in the unique island network system in the Northern Isles), with an assessment of zonal constraints charging options has the potential to assess and offer learning and solutions for networks across the GB networks. The project is an

innovative integration of a range of initiatives to significantly increase the penetration of renewables on the Northern Isles, maximise user benefits and drive down costs. It has the potential to take existing learning and innovation to scale in a contained network setting which can then be replicated in grid across other parts of the GB network.

The involvement of local island authorities is a key element and will keep the supply to – and interests of – communities and energy users at the heart of the project. It will deliver potential associated benefits of helping further develop and test approaches on active network management and potential roll out. The fund is also aimed at delivering solutions and outcomes that provide valuable learning for the wider energy industry and other parties. In each of these important respects I believe the project and the application for funding strongly meets the aims of the Fund. In response to the call for funding projects from the Low Carbon Networks Fund, and on behalf of the Scottish Government, I therefore strongly support this project funding application from Scottish Hydro Electric Power Distribution.

I trust that this information will be sufficient for the endorsements required by the call for proposals. Should require anything else or have questions of clarification, please do not hesitate to contact my official, Mr Colin Imrie, Head of Energy Markets on 0300 244 1085 or colin.imrie@scotland.qsi.gov.uk

Yours sincerely
Jim Mather
JIM MATHER