

Hannah Nixon
Partner, Transmission
Ofgem

Project.TransmiT@ofgem.gov.uk

06/05/2011

Dear Hannah

Highlands and Islands response to 38/11 Project TransmiT: next steps on connections issues

Highlands and Islands Enterprise (HIE) is the Scottish Government's agency responsible for economic and community development across the northern half of Scotland and the islands. Renewable energy resources in HIE's area constitute the greatest concentration of potentially exploitable renewable energy resources in the UK and the region is well placed to contribute to UK and European carbon reduction and renewable electricity generation targets *if* key regulatory barriers can be effectively addressed to facilitate deployment of renewable technologies.

Ofgem has rightfully noted in its initial September call for evidence on Project TransmiT that the UK is facing an unprecedented challenge to connect large amounts of new and low-carbon generation to the electricity networks to meet climate change targets, while continuing to ensure value for money for consumers and security of supply. It would follow that this challenge will require bold changes to the way that the electricity system is accessed and charged for.

High-level principles

Whilst the current regime may have been appropriate for a newly privatised industry where there was scope for efficiency savings, it is clearly out of date for the investment challenges faced today. Levying higher charges for access and use of the transmission network on generators furthest from centres of demand was an effective signal when the UK had an over-supply of conventional generation and secure sources of fuel. Unfortunately it remains an effective signal and does not fit with current UK policy objectives which require a fundamental shift to a more mixed and geographically spread energy supply, including a significant renewable energy element. We therefore welcome the review of connection arrangements, and the Ofgem statement, in its above letter, that it is not convinced that current arrangements strike the right balance between new and existing network users, the network companies, and consumers.

The existing balance has massive costs associated with generator connections in the areas of best resource in the Highlands and Islands of Scotland. The existing balance has also effectively signaled decades of underinvestment in grid infrastructure in the region. In order to overcome this investment barrier and facilitate a geographically dispersed, range of technologies, the future balance will need to include far greater socialisation of costs.

Developing an Enduring Solution

HIE will engage and commit to working constructively with the CMP192, the industry process. Some general comments on the process so far:

- Our understanding of discussions to date is that they have tended to centre on balancing risk between pre and post commissioning users. While National Grid's proposals are welcome and useful, it is unlikely in their current form that they will provide a solution for the Highlands and Islands without a much greater emphasis on allowing strategic investment in grid infrastructure in areas of high resource. The question here is what Ofgem will accept as an efficiently incurred investment and it would appear that National Grid is pre-supposing what this would be which is causing a barrier to moving the discussion beyond redistributing risk among other stakeholders.
- Extra post-commissioning security could act as 'dead credit' as it would eat into the amount a generator could seek from the market for more useful purposes. The market places a limit on the total amount of credit/security any one generator can access. Because of the lifecycle of renewables projects, the risk of plant closing before prior to the end of its design life are extremely low.

It is our view that in order to achieve 2020 carbon reduction targets and facilitate contribution to these targets from areas of best resource, Ofgem will need to allow a period of strategic investment in grid infrastructure upgrades.

Significant Code Review

We have provided in our letter (Project TransmiT: request for further information, February 2011), a number of examples of projects in the Highlands and Islands which have been unable to proceed because of high connection charges. The projects detailed in that letter could act as tests for any proposals coming out of the industry process. We would suggest that, if the CUSC panel proposals fall short of addressing these tests, this should act as a trigger for an SCR. We will be happy to re-submit our letter of February 2011 in confidence if required.

I hope you find these comments useful. If I can provide any clarification or any further information, please don't hesitate to contact me.

Yours sincerely



Calum Davidson
Director - Energy and Low Carbon
Highlands and Islands Enterprise

In conjunction with
Shetland Islands Council
Comhairle nan Eilean Siar