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Project.TransmiT@ofgem.gov.uk

Dear Sirs

Orkney Islands Council

Response to Ofgem's letter of 27 May 2011,

"Project TransmiT: Approach to electricity transmission charging work"

The Council is pleased to have a further opportunity to make an input to Project TransmiT. On this occasion the consultation is about process, namely Ofgem's intention to progress transmission charging changes through a Significant Code Review. The Council accepts the case for doing this, as it is difficult to see the necessary changes coming about through the normal industry process, particularly within the tight timescale to which Ofgem is working.

The Council also agrees with Ofgem's decision to exclude the more radical market splitting options, involving Locational Marginal Pricing, from the scope of the SCR. In the time available it would be very difficult to prepare and implement a major change. However, an unfortunate consequence of this exclusion is that some uncertainty will be created about the durability of a new system of transmission charges, at a time when investors need certainty in order to undertake the major investment programme required to decarbonise the UK's electricity and ensure future security of supply. Ofgem would need to think of ways of reassuring investors on this point.

The Council welcomes the plan to have further consultation on the emerging options, which are set out in diagrammatic form and in the text. The Council also welcomes the Ofgem plan to initiate detailed modelling to identify the likely impacts of the different potential options for change. Discussion and study of options to date has been at a fairly theoretical level, and this needs to be supplemented by a better understanding of what the different options would mean for charges in different parts of the country.

At this stage the Council would like to make some initial comments on the options as set out in Ofgem's letter.

The shape of the diagram, for example the placing of the 'Improved ICRP' option between the status quo and the more radical options for future study, seems to suggest that 'Improved ICRP' represents a favoured middle way between the present and the future. Its very title, together the partial, non-exclusive menu of some of the improvements that it might involve, again seems designed to cast it in a favourable light. At least one of the illustrated improvements, potential changes to the revenue recovery split between generation and demand, does not seem to belong exclusively to the ICRP option, but appears just to have been lodged there as a convenience. It would not appear to improve the accuracy of charges. It could equally well, perhaps better, be lodged with the Socialised Charging option, applying as it does a uniform tariff (i.e. zero) to all generation users.

In the diagram and text, Socialised Charging, by contrast, has only one option built into it, the choice between charging by capacity or usage. Yet there could be a 'Modified socialised charging', or 'Hybrid socialised charging' option, with a moderated version of the current zonal banding system, involving a narrower range of bands. This would keep an element of locational charges, retain a simple and straightforward system, but reduce some of the current disparities between charges for different zones.

This option would also make possible the creation of an Islands zone, bringing the Scottish islands into the same system as applies to the rest of the country. This would be a recognition that the islands are an integral part of the UK. At present there seems little specific recognition of those parts of the country at the end of spur lines, rather than embedded into an interconnected transmission network. It is precisely these areas which have the richest renewable resources, and which ought therefore to receive special attention in a review which has as a primary aim, the connection of low carbon energy.

In this context there is some concern that the menu of 'Improved ICRP' options may not offer much to the peripheral areas. Greater emphasis on intermittency could help, if it is not negated by the lack of any non-renewable generators on spur lines, to make use of the link when renewables, especially wind power, are not generating. Changes in the revenue recovery split may help, but not if spur lines continue to be regarded as 'local', with their entire cost thereby falling on those generators located at the end of the spine.

The current basis for the split between 'local' and 'wider' works, i.e. connection to a MITS point, implies an incremental model of grid reinforcement, favouring areas already embedded in the main grid network, rather than a more radical realignment of the network to connect the areas of richest renewable resource – essentially the peripheral areas of the country – to the main centres of population where customers are concentrated. The peripheral areas have many potential generation users (typically small and medium size renewable generators) as well as existing users. In time as the network grows there are likely to be new MITS points nearer to these generators than they are now. To maximise development of renewable energy and ensure security of supply for future customers, it would make strategic and economic sense to anticipate and plan the future basic network now, rather than relying on the happenstance of enough willing generators coming forward at the same time to carry the cost of what will become the basic grid network.

This is an aspect of the grid reinforcement process, affecting not just transmission charges but also connection arrangements, which should be dealt with as part of both these elements of the Project TransmiT review.

In conclusion, the Council would urge Ofgem to resist any tendency to narrow down the range of options at this stage, but rather to maintain consideration of as wide a range of options as possible, in terms both of the planned impact modelling and of future consultation. In considering options, the Council would also reinforce the claims of the peripheral areas, of which Orkney is a part, for changes to current methodologies which will facilitate the realignment of the UK network to enable renewable energy from the periphery to be delivered to customers in population centres.

Yours faithfully

A handwritten signature in black ink, appearing to read 'A Tait', with a horizontal line underneath.

Albert V Tait
Chief Executive