

## **CMP192 Impact Assessment**

### **Submission by Orkney Islands Council**

#### 1. Introduction

Orkney Islands Council is pleased to have the opportunity to make a submission to Ofgem in response to the CMP192 Impact Assessment. Our response focuses on two of the questions (6 and 7) which are particularly relevant to the development of renewable energy generation in Orkney, which is the Council's key strategic objective for the future development of the islands.

#### 2. Sharing of Liability for Local Works (question 6)

The Council is very disappointed that the Impact Assessment has come down against the alternative proposal for the sharing of the liability for local works between demand and generation where local assets are designed to accommodate demand either on completion or in the future. Whilst recognising that the overall CMP192 proposal will substantially reduce the requirement for the provision of security by pre-commissioning generators, the Council believes that liability for local works remains a deterrent to new generators in the islands. This is especially the case in the islands where the extent of local works is so great, typically many times the extent and value of local works faced by mainland generators. This puts island generators at a disadvantage compared with those located on the mainland.

The Council takes some comfort from the statement in paragraph 5.11 that Ofgem is not in principle against the sharing of an appropriate portion of the local works with demand, but that the proposal as it stands is too broad and insufficiently developed. It would have been useful if some guidance along these lines had been provided to the CUSC working group last summer, thereby enabling the working group to refine its proposal while it had the relevant experts on hand. It is noteworthy that this proposal attracted the most votes amongst the alternatives considered by the working group, and that National Grid was sympathetic to it. The Council understands that if further consideration is to be given to this alternative, it will now be necessary to propose a further amendment of the CUSC to the CUSC panel, necessitating (if the panel agrees), a new working group. The Council will be consulting with other stakeholders about the possibility of doing this.

#### 3. Impact on Smaller Generators (question 7)

This relates to the issue of alleged discrimination against smaller generators arising from the credit allowance given by National Grid to top credit rated companies to cover some or all of their security requirements. In general, the Council believes (as does Ofgem, para 5.15 of the Impact Assessment) that smaller companies do find it much more difficult than larger companies to handle both the liability and the security requirements involved in user commitment to new transmission

investment. In particular it believes that providing some concession to top credit rated companies does discriminate against smaller generators.

It is no defence to this particular charge to say that smaller generators will benefit from the proposal to set security requirements at a percentage of the liability. Larger generators benefit equally. Smaller generators are still relatively disadvantaged, especially because the unchanged liability is likely to be of much greater concern to them than it is to larger generators.

The Impact Assessment justifies the differential in credit cover ratings by reference (para 5.17) to “the valuable protection to consumers” it provides. In the Council’s view Ofgem is, in this instance, straining at a gnat, since the chances of a small generator defaulting are very limited, and the impact on the generality of consumers if this happened, would be much less than default by a large generator. In monetary terms the impact on consumers’ annual bills, of even a complete default on the first planned Orkney interconnector, would be measured in pennies. Small generators are likely to be one of several committing to a new grid project, and in the very unlikely event of one failure, the other parties are likely to be able to absorb some additional capacity.

Smaller generators are a feature of the peripheral areas, such as Orkney, where local landowners and residents want to take advantage of a local resource – the wind – rather than leaving it to large established generators to gain all the economic benefit involved in developing a renewable project. But island generators are also those, as noted above, with much higher local works costs compared with mainland generators. New generators on the islands are thus doubly disadvantaged. By ensuring that smaller generators are not put at a disadvantage, Ofgem would be meeting the CUSC objective of encouraging competition in generation. It would be in keeping with the CUSC objective of EU compliance, given the EU encouragement of SMEs, and of the requirement, embodied in the Energy Directive 2009/28/EC, not to disadvantage island areas.

#### 4. Conclusion

In conclusion, the Council believes that Ofgem is ignoring the difficulties which island generators, and in particular smaller generators in the islands, face in trying to obtain connections to the transmission network, given the huge extent of local works that are necessary to connect island generators to the Main Interconnected Transmission System. The Council is disappointed that Ofgem is proposing to reject the alternative for the sharing of the liability for local works between generation and demand; and that it appears not to accept that existing and proposed arrangements place island generators, especially smaller generators, at a relative disadvantage compared with larger, and mainland, generators. It believes that in so doing, Ofgem is not best serving the CUSC objectives of encouraging competition in generation, and of compliance with EU requirements.

**Chief Executive’s Office, Orkney Islands Council**

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