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Submitted via email to: SWW@ofgem.gov.uk

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RE: RWE Innogy UK response to consultation on Scottish Hydro Electric Transmission's proposed transmission project between Caithness and Moray in northern Scotland

Dear Kersti,

RWE Innogy UK welcome the opportunity to respond to this consultation regarding the transmission reinforcement options in SHETL's northern Scottish area. We agree with the conclusions of Ofgem, its consultants and SHETL regarding the clear need for reinforcement in the north of the SHETL geographical area.

RWE Innogy UK support the case made by SHETL for the HVDC cable link between Caithness and Moray and have a strong preference for this over the onshore alternatives. Ofgem is correct in recognising the critical nature of the timing of reinforcement delivery in evaluating SHETL's proposals. RWE Innogy UK's portfolio of projects would be severely impacted by postponing the necessary reinforcement works from 2018/19 to 2026 or beyond. It would deem projects that we have already made significant investments and that have entered connection contracts, economically unviable and expose existing wind farms to high levels of constraints. The bottom line is that this will eventually come back to being reflected in consumer costs.

We are just one of many renewable energy developers that would be negatively impacted by the choice of the 2026 onshore option. The later delivery will limit the potential to achieving 2020 renewables targets. The analysis provided to Ofgem to date focuses too narrowly on 'tangible economic' cost benefit analysis overlooking other important factors such as costs of the options on – RES commitments, network security, employment and supply chains. The uncertainties associated with the onshore options are also underplayed.

We hope that Ofgem will consider these important factors in its final decision.

Kind Regards,

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1. Do you consider SHE Transmission's proposed standalone subsea cable project to reinforce the transmission system in northern Scotland is an appropriate option for consumers at this stage? Please explain the reasons behind your views.

RWE Innogy understands that Ofgem is currently considering an alternative option to SHETL's proposed Moray to Caithness subsea link. Whilst we agree with OFGEM that there is a need for a reinforcement of the transmission system in the north of Scotland, we do not agree that there would be greater benefits to the consumer in opting for an solution comprising onshore reinforcements i.e. the suggested rebuild of the Beaulieu to Blackhillock 132kV to 400kV. The main reason for this view is that the subsea cable route is a refined plan, costed more reliably while the costs of the onshore alternative is likely to be underestimated, principally because of the lack of recognition of the associated planning challenge. We also agree with Ofgem's suspicion that the less tangible benefits of the options have also been omitted from the various impact assessments. The particular importance of considering timing for connections and network security elements are discussed under questions 2, 3 and 4.

2. What are your views on the timing and scale of SHE Transmission's proposed subsea link to reinforce the transmission system in the Caithness Moray area?

The timing of the sub-sea link for 2018/19 delivery is appropriate given the needs and expectations of contracted developers. SHETL's proposed delivery timetable for Option 1 appears robust. The current subsea link between Moray and Caithness proposed by SHETL is in late stages: all the consents are in place, the procurement processes have been completed and in order to meet the planned completion date of 2018/19, the project is ready to start in August 2014. SHETL have established the details of the project and should therefore have a more reliable estimate of costs compared to the alternative draft options. There is a considerable number of contracted MW now reliant on the sub-sea cable and its targeted completion date.

The onshore only Options (2a and 2b) as proposed would have a negative financial impact on contracted parties due to the delay in export of electricity. Furthermore, our experience of the planning system and development in the North of Scotland and the Beaulieu-Denny project progress leads us to expect the actual delivery timeline to be delayed even further. Rebuild of the onshore Dounreay to Beaulieu 132kV line (option 2a) has not yet gone through the relevant planning processes and is estimated to be completed in 2026, eight years after the subsea option. Significant additional costs can become apparent during the planning and pre-construction phase. Experience of the Beaulieu to Denny rebuild which took five years to get through the planning process, suggests that the additional delay associated in switching to this alternative is likely. This would in our opinion result in considerable financial risk to end consumers and further delays in the generation project currently contracted with NGET and reliant on a reinforcement of the transmission system in the north of Scotland.

3. What are your views on the future costs of generation constraints in northern Scotland?

There are aspects to Poyry's approach to constraint costs analysis that are an improvement on previous work. For example, the wind output assumption is taken across a series of years rather than taking a single year. However, there are a number of problems with Poyry's approach to calculating the costs of constraints. A number of factors are missed, energy replacement costs are overestimated, low demand-high wind output scenarios are not considered sufficiently.

We support RenewableUK response that suggests

- *Under both the RO and CfD support mechanisms, the consumer burden for support of renewables remains fixed irrespective of output. If this is accepted, then there is no case for netting off consumer support for renewables where generation is curtailed and the pricing of bids should reflect this.*
- *CfD and RO bid prices would differ, with the potential for very high bid prices from new capacity in the 2017-18 period and beyond. This deserves some further investigation. We consider the avoidance of this extra cost to be another additional benefit associated with early reinforcement.*

4. What are your views on the potential wider benefits of SHE Transmission's proposed subsea link? How should wider benefits be measured and evaluated in the Needs Case assessment for a proposed transmission project?

- Timely connection of contracted generation capacity

The benefits of facilitating the timely connection of contracted generation capacity reliant on 2018/19 reinforcement has already been set out above.

- Impact on the extent to which EU RES targets are met

This will have economic impacts that will affect UK consumers.

- Greater certainty of cost to the consumer associated with subsea option

Planning investment has already been sunk in to the HVDC option by SHETL, therefore pursuing an alternative would mean this money has been lost while the costs of onshore planning could balloon. For example in 2011 Ofgem allowed SHETL to increase their asset costs by £212.6m to cover the additional costs associated with planning consent conditions imposed, legislative change and the technical, engineering and planning constraints identified during pre-construction work.

- Impact on network security

Beauly is already a pinchpoint on the UK electricity network. The proposed onshore options place further pressure on Beauly. The subsea option on the other hand is an improvement by bypassing Beauly and improving network security.

- Impacts of options on employment and UK supply chains

Grangeston have provided the most recent assessment on behalf of Highlands and Islands Enterprise. In this they identify a total of 3,102.4 MW renewable energy projects in the North of Scotland that could be affected if the provision of extra grid capacity is not available by 2018. The direct employment benefits, GVA and supply chain benefits forgone will they estimate amount to hundreds of millions of pounds. While other reports provide lower capacity figures – neither of the others consider the economic impact on employment.

- 5. Do you consider we (and our consultants) have identified the relevant issues to the Needs Case assessment for SHE Transmission’s proposal? Are there any other factors you think we should examine in order to inform our views on the proposed reinforcement?**

No comments.

- 6. Do you have any other comments on our initial views set out in this letter?**

No comments.