



Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean

[TransmissionCompetition@ofgem.gov.uk](mailto:TransmissionCompetition@ofgem.gov.uk).

10 July 2015

Dear Mr Wightman

### **Introduction**

Thank you for providing the opportunity to respond to this open letter consultation on 'Criteria for onshore transmission competitive tendering' issued on 29 May 2015.

Highlands and Islands Enterprise (HIE) is the Scottish Government's agency responsible for economic and community development across the North and West of Scotland and the islands.

HIE along with its local partners: the democratically elected local authorities covering the north of Scotland and the islands: Shetland Islands Council, Orkney Islands Council, Comhairle nan Eilean Siar, Highland Council, Argyll & Bute Council and Moray Council make representations to key participants on behalf of industry to influence the way in which grid construction is triggered, underwritten then accessed and charged for in the region.

### **General Comments on Onshore Transmission Competitive Tendering**

We appreciate the benefits that can be brought by tendering of some high value onshore transmission projects, although we believe that the criteria defining which projects qualify for tendering should be simple and consistent. A number of parties will be dependent on the construction of these works in one way or another and it is important to ensure that there will not be any undue delays due to uncertainty over whether the works qualify for tendering or not.

Also, HIE does have concerns about the number of projects that may qualify under the new criteria and whether these can be managed efficiently. HIE considers that a large number of new TOs may create a fragmented transmission system leading to increased costs in the long term.

### **Responses to consultation questions**

*Q1. What are your views on the analysis and conclusions in Jacobs' report?*

HIE considers that the analysis undertaken by Jacobs is useful, and includes a good commentary on the issues discussed at the stakeholder workshop. Attendees at the workshop included all of the incumbent TOs and a number of firms who would be able to tender for

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these types of transmission projects. Despite this, HIE considers that some analysis of recent major transmission reinforcements could have been undertaken to analyse how many “qualifying” projects had been developed recently.

Jacobs’ conclusions mainly reflect the outcomes from the stakeholder workshop and provide some useful commentary on issues that may introduce uncertainty into the competitive tendering process, such as asset transfers and lifetime project costs.

HIE agrees with Jacobs’ views on project definition that the project scope should include tightly defined delivery packages which meet the criteria for projects to be competitively tendered. We agree that asset transfers should not introduce a significant barrier to transmission works tendering as the process for this is fairly well understood based on current systems such as OFTOs. Although HIE agrees that it may be rare that projects consist entirely of new assets, we do not think there should be a definition for “substantially new” projects. HIE considers that the interactions between new and existing assets should be kept to a minimum and it should be fairly clear which projects will qualify as “new”. As discussed above, we believe that the interactions between new and existing assets should be kept to a minimum. As well as allowing projects to consist of new assets, this condition will also simplify the issue of electrical separation by having only a few interfaces between the new and existing transmission assets. This will also reduce the impact of the works on the existing transmission system and users and reduce the need for asset transfers. HIE does not agree with Jacobs’ view that the project value should include an element of lifetime costs. Although we understand Jacobs’ reasoning for including these costs, we believe that calculating operational and decommissioning costs is inherently uncertain and would therefore introduce an unnecessary complexity to defining which projects are defined as high value. HIE considers that the capital costs involved with the construction of the assets can be clearly calculated and analysed, which keeps the process simple and allows for more certainty on which projects may qualify for tendering.

*Q2. What are your views on using £100m as the high value threshold? Should this be whole life or capex?*

As discussed above, HIE agrees with Ofgem’s view that the cost of the project should be defined based on the capital expenditure of the project, which is easier to calculate and scrutinise than a whole life cost.

HIE understands that setting the threshold at £100m initially should provide confidence that savings will be made due to the high cost of the project. HIE believes that this threshold could be reviewed in the future to see if cost savings could also be seen for projects below £100m, particularly in cases where the assets are easily identifiable as separable and new.

HIE believes it would be useful to consider how many projects might fall under the new criteria and whether this number is manageable. As discussed previously, HIE does have concerns that a large number of assets being built and owned by new TOs can create a fragmented transmission system which may lead to inefficiencies and increased costs in the long term.

*Q3. What are your views on defining new and separable? Are our principles clear? In your view, do they appropriately capture projects where using competitive tendering would bring value to consumers? If not please explain and suggest how we can improve them.*

As above, we believe that the definitions of new and separable projects should be clear and simple, and easy to apply. We agree with the basic principles set out by Ofgem, in particular that projects should qualify where ownership boundaries can be managed through existing industry codes and standards. We believe that these projects provide companies with enough scope to minimise costs due to the reduced interaction with the existing transmission system and hence should bring value to consumers.

*Q4. What are your views on the importance of electrical separability and electrical contiguity, including on the alternative approaches for considering electrical separability?*

HIE believes that electrical separation is an important point to consider for projects to be competitively tendered but agrees with Ofgem's and Jacobs' view that it need not be a prerequisite for the criteria. As discussed above, HIE considers that the number of interfaces a new project has with the existing transmission system should be kept to a minimum to prevent undue issues arising in the future.

HIE does believe that electrical contiguity is important for the criteria. As before, although it need not be a prerequisite for relevant projects, electrical contiguity allows assets to easily be identified as "separable" and can help to keep the number of interfaces down. As set out in Jacobs' report, HIE agrees that electrical contiguity can bring benefits in terms of minimising costs and as such, may be more suitable for competitive tendering.

Regarding the alternative approaches for considering electrical separability, HIE believes that Approach 2 may be the most suitable, provided the re-packaged suite of works does not introduce unnecessary complexity to the transmission system. This approach allows qualifying projects to proceed but does not require the potentially complicated issue of asset transfer as set out in Approach 3.

*Q5. In thinking about how to apply the criteria, what should be taken into account when establishing different packages of works to address a given need?*

HIE considers that, in this scenario, similar considerations as discussed previously should be taken into account when establishing works packages. It would be appropriate to keep the works electrically contiguous to avoid a number of different owners being involved on a section of the transmission system and the number of electrical interfaces should be kept to a minimum.

*Q6. What are your views on the three approaches we suggest for applying the criteria? Are there other options for applying the criteria that we should consider?*

HIE does not consider Approach 3 to be a preferable approach for applying the criteria as it adds unnecessary complexity. Approach 1 would keep the criteria simple by only allowing those that clearly meet the requirements to proceed to competitive tendering although HIE

can see that such an approach might rule out a number of projects where cost savings could be achieved. HIE considers that Approach 2 may be an appropriate approach although we would again stress that this would only be the case where such an approach does not result in a number of interfaces to the existing transmission system.

*Q7. Are there any additional considerations that should be taken into account in relation to the new, separable and high value criteria?*

HIE does believe there are any additional considerations to take into account currently.

We look forward to seeing the results of this consultation in due course.

Yours sincerely



Elaine Hanton

Joint Head of Energy

In partnership with:

Shetland Islands Council

Orkney Islands Council

Comhairle nan Eilean Siar

Highland Council

Argyll & Bute Council