

James Norman, Head of New Transmission Investment
Ofgem
South Colonnade
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By email: NTIMailbox@ofgem.gov.uk

Dear James

Orkney transmission project: Consultation on Final Needs Case and Delivery Model

Hoolan Energy and Low Carbon welcome the opportunity to participate in Ofgem's consultation on the Final Needs Case for the Orkney project, a transmission connection that SSEN is proposing to construct between the Orkney islands and Scottish mainland by April 2023. We are strong supporters of the Needs Case for Orkney.

We previously submitted a confidential response to Ofgem's consultation on 8 February. We are now pleased to provide the following updates:

- This letter which is not confidential and may be published;
- Hoolan Energy and Low Carbon's consultation response on Final Needs Case and Delivery Model. Please note this supersedes our confidential response submitted on 8 February and, as requested by Ofgem on 14 February, this version may be published;
- Appendix 1 – this remains strictly confidential and no part of it may be published;
- Appendix 2 – Biggar Economics – *Economic Benefits of Costa Head & Hesta Head Wind Farms*
- Appendix 3 – Baringa Report to Scottish Government – *Economic Opportunities of Renewable Energy*, 2016.

Executive summary

We welcome Ofgem's confirmation there is a well justified need on Orkney for transmission reinforcement. We also note Ofgem's confirmation that the technical solution proposed by SHE-T, a 220kV (220MW) transmission reinforcement, is appropriate.

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We strongly disagree with the additional conditionality tests proposed by Ofgem in this consultation which would apply to final Needs Case approval. Ofgem proposes that no later than December 2019, 135MW of generation on Orkney must provide evidence of:

- The award of a Contract for Difference in the 2019 Auction; or
- Planning Consent and finance to construct the generation project.

The additional conditionality tests proposed by Ofgem are unreasonable and create new barriers to generators. These additional conditionality tests put the Orkney Needs Case at risk, renewable developments and investments at risk, and prevent the benefits of cost reduction and decarbonisation of the energy system being realised by current or future GB consumers.

We support SHE-T's independently verified analysis that the proposed reinforcement provides consumer benefit at a much lower level of connected generation than Ofgem's generation threshold of 135MW. Our consultation response provides information to challenge the arbitrary figure of 135MW and supports SHE-T's independently verified analysis that net consumer benefit accrues at the correct tipping point of 70MW. We also provide further context in relation to the conditionality tests which mitigate risks and reduce potential exposure faced by consumers.

Background

The Orkney electricity grid is currently connected to the mainland UK at Caithness by two 33kV subsea cables with a combined capacity of 38MW. Following the growth in renewable electricity generation and the relatively limited local demand, the existing Orkney electricity network reaches full export capacity at significant periods of time throughout the year. As a result of this constraint the network owner and operator in Orkney, Scottish and Southern Electricity Networks (SSEN), has been unable to connect any significant new electricity generators to the grid since 2012 and is required to curtail the output of some existing generators during high wind conditions to maintain system integrity.

The existing grid constraint has dampened the growth of the renewable energy industry in the Orkney Islands. The development and construction of a new interconnector between the islands and mainland Scotland has therefore been a strategic priority for Orkney Islands Council (OIC) for many years. Orkney's Sustainable Energy Strategy 2017-2025 notes the constraint imposed on Orkney by inadequate grid infrastructure. In addition, Scottish Government states in NPF3 that "Improved grid connection will be a vital component in the future success of Orkney's marine energy sector."

There are numerous benefits of the new interconnector in enabling new generation to connect. These include creation of jobs for Orkney and the protection of Orkney's existing renewables jobs, enabling Orkney to become a greater exporter of energy, improving Orkney's own security of electricity supply and removing a significant barrier to marine energy development and innovation. After many years of hard work by a diverse range of stakeholders, the development of the new interconnector is now at an advanced stage.

Hoolan Energy and Low Carbon

Hoolan Energy is a renewable energy developer based in Edinburgh. We are members of Scottish Renewables and the Orkney Renewable Energy Forum (OREF) and are committed to the responsible development of renewable energy power production in Scotland across a range of technologies.

Hoolan Energy is part of Low Carbon, a privately-owned UK headquartered investment company. Low Carbon is focused on developing, financing and operating renewable energy power projects. Since its formation in 2011 Low Carbon has funded and is funding development activities in solar PV, onshore wind, energy storage, anaerobic digestion, concentrated solar power and waste to energy.

Our Orkney projects

Hoolan Energy was established by Low Carbon in 2015 to take forward a portfolio of Scottish renewable energy projects, including commercial scale onshore wind developments in Orkney. Low Carbon is the investor in the projects and Hoolan Energy provides development services and expertise.

In 2016, Transmission Entry Capacity (TEC) applications were made and grid offers accepted for three commercial scale onshore wind projects on Orkney, totaling 61.2MW Costa Head Wind Farm Ltd, Hesta Head Wind Farm Ltd and Halcro Head Wind Farm Ltd.

In 2017, Hoolan Energy ceased development of Halcro Head Wind Farm due to environmental constraints.

The two remaining Orkney projects continue to secure TEC as follows:

Costa Head Wind Farm Ltd (20.4MW)

Hesta Head Wind Farm Ltd (20.4MW)

The OIC Planning Committee refused both planning applications in August 2018, despite neither project receiving a statutory objection and Costa Head being recommended for approval by OIC's own planning officer. Appeals were lodged with the Department of Planning and Environmental Appeals (DPEA) in October 2018, and the DPEA has publicly notified parties that a decision is expected in March 2019.

Both projects are transmission scale projects: i.e. the company owning the project provides financial securitisation and underwrites grid connections at risk and pays Transmission Network Use of System (TNuoS) charges over the operational lifetime of the projects. Grid connection dates for both projects are April 2023. If consented in time, both projects are expected to compete in the 2019 Contract for Difference auction.

We are grateful to Ofgem for engaging directly with developers and SHE-T on this consultation, and we look forward to meeting Ofgem again in March ahead of a final decision on the Needs Case.

Yours sincerely



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cc. *Joe Slater, Ofgem and Olivia Powis, Ofgem*