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Dear James Norman

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

This response is from the Strategic Projects Team within Orkney Islands Council and represents the view of the Council as a developer of wind energy projects. Please note that there will be a separate response from Orkney Islands Council as the local authority.

**Question 1. Do you agree that the current network on Orkney needs reinforcing in order to connect additional generation?**

We agree that the current network on Orkney needs reinforcing in order to connect additional generation. We would also like to point out that the current network on Orkney would need reinforcing in order to connect additional load.

**Question 2. What are your views on the generation scenarios developed by SHE-T? we are particularly interested in views on the likelihood of wind generation progressing without subsidy support and the likelihood of tidal generation around Orkney developing to the levels predicted by SHE-T scenarios?**

Wind

We believe that SSEN's generation scenarios for wind up to 2032 are reasonable. The wind farms being investigated today which expect connection in the mid-2020s cover all but the two highest scenarios presented. It is expected that further wind generation will also be able to come forward before 2032 if there is sufficient capacity following a reinforcement to the network as the security and liability element which is seen as a barrier to entry of development on Orkney would have been reduced.

We recognise that Ofgem have doubts around the levels of wind generation predicted due to the existing contracted positions and planning consent. We would like to point out that this has occurred due to the fact that the timeline for wind farm development and build out is not aligned with the timeline to develop and build out transmission network reinforcements. This mismatch in timelines has been identified by SSEN within the Alternative Approach. To get a wind farm to planning consent stage costs several hundreds of thousands of pounds which is all at risk if there is no certainty of a grid connection being possible. The particularly high cost of the subsea element of the necessary reinforcement results in liabilities 4.5 times larger than on mainland GB which means that Orkney developers will naturally seek to reduce the risk of the project not progressing more so than a mainland GB developer before contracting with the ESO, this includes a preference to have planning consent before signing up to liabilities. The primary risk for Orkney generation projects to not reach commissioning, however, is if the necessary transmission reinforcement is not built. There has not been a firm commitment that the necessary reinforcement that is required to connect generation will take place and as a result many developers have not received the necessary signal to progress planning applications (at significant cost) and contract with the ESO.

Our view is that, if Ofgem produce an achievable and realistic Final Needs Case, Ofgem will see more generators progressing planning applications and contracting with the ESO in due course.

#### Subsidy free wind

CfDs have to date been instrumental in enabling financial viability of onshore wind farms. However, the reducing administrative strike price is moving the CfD from a subsidy tool to a 'route to finance' tool. A report by Baringa in April 2017 for Scottish Renewables looked at the potential outcome of a 'Pot 1' CfD auction in 2018/19. While there are clear differences in the scenarios (non-mainland onshore wind would compete in CfD 'Pot 2' with offshore wind, non-mainland onshore wind faces higher costs than onshore wind, and the expected strike price for 'Pot 2' is higher than 'Pot 1'), it does indicate that there is potential for the 2018/19 CfD 'Pot 2' auction, or in subsequent years, to have a positive Net Present Value. In other words, developers are risking a lower overall return in exchange for a guaranteed return which is expected to aid in reaching financial close.

Alternative routes to finance are being explored by developers in the UK given that onshore wind CfD auctions are not expected in the future. As outlined in the consultation, one project has managed to reach financial close without a subsidy through a long term corporate PPA. Our analysis suggests that there is a strong business case for subsidy free wind farms in Orkney, provided they are of sufficient scale. There are however unknowns, particularly around the various charging reviews, which have potential to significantly alter the business case.

We believe that CfDs remain a real route to finance and that some developers may wish to bid into the auctions when available however we do not believe it is the only route to finance for onshore wind.

#### Tidal

The generation scenarios for tidal cover a wide range with the lowest scenario being smaller than that of a single development currently being developed and the two highest scenarios are from the ESO's Future Energy Scenarios (FES). Given that the FES were developed based on stakeholder engagement we have no reason to believe that the scenarios presented are not plausible.

#### **Question 3. What are your views on the technical design and costs of the proposed Orkney link?**

We understand that the design is for the reinforcement up to the new substation at Finstown. Given that Ofgem are comfortable with SSEN's design, we have no comments.

With regards to costs, we are comforted that Ofgem will further scrutinise the costs to build the necessary reinforcement at the Project Assessment stage.

**Question 4. Do you agree with our concerns that a constraints-based CBA may not robustly demonstrate the true consumer cost/benefit of a radial extension to the transmission network?**

We recognise Ofgem's concern around using a constraints-based CBA for a radial extension however it is an established methodology in GB transmission system development and forms the basis of the Network Options Assessment process led by the ESO.

We also note that Ofgem have found the predicted costs to be consistently higher than expected and as such any CBA would have to demonstrate consistently higher benefits than may otherwise have been required to reach a break even point. We would also like to point out that it is not always clear whether it is the ESO's CBA or SSEN's CBA that is being referenced in the consultation document.

**Question 5. What are your views on the "additional CBA", outlined in this chapter, which has been used to sense check the results of the original constraints-based CBA?**

While we recognised Ofgem's concerns about the constraints-based CBA possibly not robustly demonstrating the true consumer cost/benefit of a radial extension to the transmission network, we do not believe that the "additional CBA" presented in the consultation document robustly demonstrates the true consumer cost/benefit either. Multiple elements that are beneficial to consumers have not been addressed adequately and is therefore unnecessarily conservative with any actual outcome likely to be even more beneficial to the consumer. Specifically, the benefit to consumers associated with a transmission link securing demand on Orkney and removing the need to continue to operate the Kirkwall Power Station should not be discounted purely because there has not been sufficient analysis to date. The reduction in non-renewable generation in this scenario would be as a direct result of renewable generation seeking to connect to the network therefore the carbon saving should be considered also.

**Question 6**

**i) What are your views on our proposed conditions of approval? Do you agree with our view that the information available does not demonstrate that building a 220MW connection to Orkney would be beneficial for GB consumers if only 70MW of generation came forward to use the link? Do you agree with our proposal to set a minimum-generation threshold of 135MW?**

We do not believe that the proposed conditions of approval are proportionate or appropriate.

We recognise that having planning permission reduces the risk of the project not progressing to commissioning and that this would give Ofgem greater certainty/confidence however the risk of generation projects not achieving planning consent is built in to the industry standard of placing securities (of which Orkney is facing requirements higher than usual for mainland connections) therefore to place this requirement on Orkney developers is overly onerous. We also would like to point out that having a conditionality directly linked to having planning consent by a specific date creates a situation whereby any delay in the planning process (whether due to planning appeals, lack of resource within the statutory consultee bodies, or other unforeseen circumstances) could result in the conditionality not being met in time when the latest the planning consent is required for build out and commissioning of the generation

project is much further into the future. In other words, a delay in achieving planning consent to 2021 would not necessarily result in a delay to the commissioning date (earliest of April 2023).

Finance cannot be secured to construct a generation project four financial years before commissioning without planning permission or without certain guarantees that the necessary network reinforcement will be built. The uncertainty around the various charging reviews underway also make it impossible to finalise a business case and secure financial close within the timescales being proposed. Requiring finance to be secured is also beyond conventional industry practise.

We accept that the Alternative Approach request to hold liabilities is unlikely to be approved and therefore the level of securities that are required will remain 4.5 times larger than that faced by developers on mainland GB. Developers agreeing to these higher securities and liabilities should signal to Ofgem that the developers are more certain of the projects reaching commissioning stage than other mainland GB developers at that stage. This combined with the risk that developers will be moved down the connection queue if project deadlines are not met results in more certainty that the asset will not be stranded which is the key aim of the securities and liabilities.

Given that the liability risk is 4.5 times larger than those typical on mainland GB, for many developers it will be extremely difficult to take on the liabilities until planning consent is achieved. Under our own scenario analysis of where projects are within project development, we do not believe that a sufficient number of generation projects will have reached planning consent and therefore be in a position to be able to post securities by the end of 2019.

An appropriate and achievable deadline for our developments to be able to contribute to the minimum-generation threshold (if the conditionality is to sign up to the Alternative Approach) is the end of 2020. A deadline of the end of 2020 would give enough developers a realistic chance of achieving planning consent and therefore be in a position to sign up to the Alternative Approach and the securities and liabilities that go with this and therefore contribute to the minimum-generation threshold. We recognise that other developers may be able to sign up to the Alternative Approach sooner than this but do not know whether this will be sufficient, in part because we do not know how many projects will be able to sign up to the Alternative Approach or what the final minimum-generation threshold will be. Ofgem highlight that they are concerned about the impact that Access Reform will have on the financeability of distribution connected wind projects on Orkney, extending the conditionality deadline to the end of 2020 reduces this unknown risk as developers will have more information about the impact that these reforms will have.

We recognise that Ofgem protect the GB consumer and we agree that the building of a 220MW connection to Orkney should not be detrimental to the GB consumer however we disagree that the minimum-generation threshold should be set anywhere higher than on the GB consumer being no worse off. Given that the “additional CBA” does not robustly reflect the cost/benefit for the GB consumer, we request that further analysis is undertaken, and the models improved to determine a more appropriate minimum-generation threshold. Any generation that connects above this minimum-threshold will have a benefit to the GB consumer.

**ii) Do you agree that the fact of a generator signing up to SHE-T's 'Alternative Approach' does not provide an adequate level of certainty that the generator will progress to full commissioning?**

We disagree that a generator signing up to SHE-T's 'Alternative Approach' does not provide an adequate level of certainty that the generator will progress to full commissioning. Signing up to SHE-T's 'Alternative Approach' involves fulfilling all the conventional industry arrangements that an adequate level of certainty that a generator on the mainland will progress to commissioning but also greatly reduces the risk of a stranded asset through the ready to connect queue management system which could see developers moved down the queue if delivery plans are not met. In this way the risk is moved from the GB consumer to the developer. We are of the opinion that developers of more advanced projects will seek to achieve planning permission before signing up to the alternative approach if at all practical as an effective means of reducing the overall risk and securities requirement. If a developer is to sign up to the alternative approach in advance of planning, then they will only do so if they feel that there is a very good chance of success through the planning process.

**iii) Do you agree that the award of a CfD to a generator would provide an adequate level of certainty that the generator will progress to full commissioning?**

The award of a CfD to a generator would provide more than an adequate level of certainty that the generator would progress to full commissioning as this would require that generator to have planning consent which is beyond the conventional industry adequate level of certainty.

**iv) Do you agree that, in the absence of a CfD, a generator securing planning consent and finance to construct a project is a good indicator of a project's likelihood of progressing to commissioning?**

A generator securing planning consent and finance to construct a project would provide a very good indication that the project is likely to progress to commissioning stage however this should not be used as a conditionality to approve the Final Needs Case for two key reasons.

1. It is not in line with the requirements of generators on mainland GB where only a signed connection offer alongside payment of securities and liabilities is required.
2. It is not possible for a generator to have secured finance to construct a project before the Final Needs Case has been approved and whilst various charging reviews are underway. This requirement therefore effectively makes it impossible for developers to meet Ofgem's conditions and ensures that the necessary transmission reinforcement is not built and that there is no benefit to the GB consumer.

**v) If you answered no to questions (iii) and (iv) above, can you propose any alternative ways to assess, to an adequate level of certainty, whether a generation project will progress to commissioning?**

We believe that signing up to SHE-T's Alternative Approach provides an adequate level of certainty that a generation project will progress to commissioning as stated in response to 6ii. We also recognise that the likelihood of projects being able to bear the level of securities required is greatly increased when that project has planning consent. As a result, the timing and amount of generation able to sign up to SSEN's Alternative Approach is likely to be

similar to the timing and amount of generation with planning consent. This should give Ofgem further comfort that signing up to the Alternative Approach is more than adequate to demonstrate the level of certainty required of generation progressing to commissioning.

We recognise that Ofgem have doubts about this approach and that this has resulted in the conditionality proposed in the consultation however, as we have demonstrated in this response, the Conditionality as set out is not achievable. We hope that through the consultation responses Ofgem receives they will be convinced that SSEN's proposed conditionality to be signed up to the Alternative Approach is sufficient; that they will extend the deadline to at least December 2020 to allow a sufficient number of developers to progress their projects to the point where this is possible; and that the minimum-generation threshold will be reduced to take into account the wider benefits to GB consumers that have not been considered in the "additional CBA". However, we also recognise that alternative means of establishing achievable conditions may be possible (although more onerous than industry standard) so long as these conditions are flexible enough to allow consideration of projects at different stages of development. If after reflection of the consultation responses, Ofgem decides that a different set of conditionality is required we strongly urge them to engage the developers directly in agreeing what conditionality is appropriate and can be reasonably met.

#### **Delivery Model Questions 7 – 10**

No comment.

**Strategic Projects Team,  
Orkney Islands Council,  
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