

Hammars Hill Energy Limited

Olivia Powis
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU
olivia.powis@ofgem.gov.uk

8th February 2019

Dear Madam,

Ofgem: Consultation – SSEN Derogation request for Alternative Approach on Orkney

Thank you for the opportunity to respond to this consultation.

There is no doubt that Orkney has some of the UK's best renewable energy resources yet being at the at the end of the National Grid the Islands face significant challenges in grid capacity constraints and infrastructure developments, underpinned by a regulatory regime that is challenging.

Good electricity grid connection is essential for the long-term economic success of the Islands and the current lack of capacity is a major obstacle to future development and undermines the credibility of the significant investment which has already been made.

Orkney's renewable energy sector, although currently constrained by lack of grid capacity, is now a major part of our economy, supporting jobs, research and innovation, providing community benefit and generating investment, and is key to our environmental ambitions and the transition to a low carbon economy. Orkney has embraced renewables and provide a unique geographical bounded entity because of its proximity to the UK mainland - 10 miles north of the coast of Caithness. Orkney is a global leader in the field of renewable energy, and over the past 15 years has become a world leading destination for R&D in wave and tidal energy. Orkney companies have a global reach providing advice and services to an emerging marine industry, and third sector organisations are delivering cutting edge energy storage and integration projects to overcome grid constraints. There are over 600 households with small scale (<50Kw) wind turbines; the highest penetration of micro turbines in any region of the UK. In addition, there are over 100 privately owned electric cars (highest per capita in the UK) combined with a local authority which is heavily engaged in both marine and onshore wind.

The local enterprise agency, Highlands and Islands Enterprise (HIE), is similarly committed to promoting Orkney as a centre of excellence in energy research and using this research as a tool for addressing the wider social and economic problems across the region. OIC and HIE have recently announced a £6.5 funding package for a new research and innovation campus in Stromness. All these investments and initiatives help retain and bring graduates to the islands and are being put in jeopardy through lack of grid connection.

Climate change is important but so are jobs and sustainable economic development. Projects will provide jobs and bring investment and economic development and community benefits to the islands. Community renewable schemes deliver a range of social and economic benefits to local communities including increased autonomy, empowerment and

resilience by providing long term income and local control over finances, often in areas where there are few options for generating wealth.

Skills & Experience

Operationally, I am involved in the Renewable Energy sector daily and have a strong commercial understanding of the complex regulatory regime underpinning the industry. I have extensive commercial experience of a wide range of renewable energy projects featuring a variety of technologies including Wind, Marine, Hydro, District Heating Schemes, Solar, Energy Service Companies and Community Energy projects, and operate as a specialist in this niche area. I am based in Orkney, although I work on renewable projects though out the UK, and I sit on the financial due diligence panel of one of the main bank lenders to the independent energy sector and regularly undertake model audit review reports as part of the project finance due diligence process.

In August 2005 I was appointed to the Board of the European Marine Test Centre with specific responsibility for finance. Established in 2003, The European Marine Energy Centre (EMEC) is the first and only centre of its kind in the world to provide developers of both wave and tidal energy converters with purpose-built, accredited open-sea testing facilities.

In 2006 I became involved as an investor and director of Orkney's largest privately-owned onshore wind farm - Hammars Hill Energy Limited. The project became operational in November 2010 and I took over as Chairman of the board in June 2014.

I am also an investor and director of Northwind Associates. Northwind is an independent multidisciplinary consultancy practice specialising in the onshore wind energy sector. To-date the company has managed 8 projects through project finance, construction and commissioning. 5 of these projects were community projects based in Orkney. Northwind is currently looking to develop proposals for a 30MW Wind Farm on Rothiesholm Head on the island of Stronsay one of the northern islands in the Orkney archipelago.

Response to SSEN Derogation request for Alternative Approach on Orkney **Section 1: Derogation Request – Part 1: The Ready to Connect Process**

Question 1: Do you agree that SSEN's ready to connect trial will provide valuable learning in line with the Energy Networks Association's (ENA's) proposals on interactivity and queue management?

I agree that the proposals submitted by SSEN trialling alternative arrangements for queue management will provide valuable learning from a real-life example as to how this can be applied on a whole system basis before being progressed across the GB system.

Question 2: Do you agree that the proposals (subject to all customers agreeing to sign up) allocate the available capacity in a fair and transparent way?

I strongly agree that the proposals allocate capacity in a fair and transparent manner.

The UK connections queue has been previously identified as a significant issue impacting on the timeliness of customer connections and remains a cause of concern for generators. This is particularly the case in Orkney where the generation mix is made up of a few relatively small-scale wind farms (20-30MW) and two marine projects. There is an inter dependency in achieving a critical mass to trigger investment in a transmission connection, but under

current rules, the marine energy projects are at the head of the queue and given the current technology readiness level and absence of a realistic Government support mechanism, least likely to proceed first. I therefore support the introduction of milestones and other measures which provide flexibility and encourage innovation in active management of the queues. Local developers have collaborated with SSEN to arrive at these proposals which have been developed through local consultation. If Ofgem proposes to change the milestones submitted by SSEN, Ofgem must consult with developers to ensure that any new conditions are fair, achievable and are no more onerous than that required by Mainland GB developers.

Question 3: Do you agree with our minded-to position that if this process is implemented in a clear, fair and transparent way, there is no significant impact on consumers, competition, sustainable development, health and safety or other parties?

Yes, I agree. I believe that SSEN's proposals will facilitate connection on Orkney at the earliest opportunity whilst providing reasonable certainty that generation will proceed to connection. This will in turn lower the risk of stranded assets to the GB consumer and provide more certainty for developers.

Section 2: Derogation Request – Part 2: Temporarily adjusting liabilities

Question 4: Do you agree that the proposal to temporarily adjust liabilities will pass unnecessary risk to consumers?

I do not agree that the proposal will pass unnecessary risk to consumers. Under the Ready to Connect proposals, developers will have to sign up to agreed specific milestones. Reaching each milestone will require considerable levels of investment by developers in advance of a connection date. Developers are still required to place securities, in line with mainland customers. The main reason the Alternative Approach was developed was to overcome misalignment of timelines. The adjustment to securities and liabilities proposal would take place prior to Ofgem's approval of the Needs Case and therefore spend would be limited to development costs only and would not include construction costs. For projects on Orkney these securities and liabilities are a significant financial risk as the levels of liabilities anticipated are extremely high and the securities are also significant. This can only be confirmed once the project has been through the transmission connection process. Given the sums Orkney developers will have to provide, projects will incur significant additional risk than projects on the GB Mainland.

Question 5: Do you agree that the proposal provides an unfair competitive advantage to those customers who would benefit from adjusted liabilities?

I do not accept that SSEN's proposal provides unfair competitive advantage to Orkney generation customers. SSEN's proposal focuses solely on reducing the initial barrier to connection to bring Orkney developers in line with mainland developers through the security and liabilities provisions. This does not provide a competitive advantage to developers in the wholesale market as this does not introduce any changes to connection costs or use of system charges where there could be a financial benefit.

Any additional requirements proposed by Ofgem could arguably be discriminatory to Orkney generators by going beyond the requirements set out in the CUSC.

Question 6: Do you agree that the proposed mechanism of offering adjusted liabilities (i.e. by SHE-Transmission not passing on the unique subsea costs to the ESO, who in turn does not pass them to end connection customers) is inappropriate, given the implicit expectation of passing on costs in the Standard Terms of Connection?

Yes, I agree. Part 2 of the Alternative Approach relates to securities and liabilities and was developed because the industry standard methodology to securities and liabilities were prohibitive and discriminatory to Orkney customers due to the substantial costs associated with the sub-sea cable link and the risk placed on developers.

The adjustment to the security and liability proposal would take place prior to Ofgem's formal approval of the needs case and therefore any spend would be limited to development costs only, not construction costs, so the proposal poses little risk to consumers.

User commitments place financial liabilities on generators to reduce the risk of transmission asset stranding for transmission operators and ultimately consumers. To address the associated credit risk generators are also required to post securities against a portion of their liabilities. Ofgem can within its duties approve a degree of unsecured capacity on the grounds of anticipatory investment to promote future consumers' interest and environmental objectives.

For the projects on Orkney these securities and liabilities are a significant financial risk as the levels of liabilities anticipated are extremely high and the securities are also significant in comparison to GB Mainland projects.

I would argue that given the sums Orkney developers must provide incurs significant additional risk than projects on Mainland GB.

In terms of underwriting, I would support adjustment of the financial arrangements to which small independent developers on Orkney are subject. This will increase the likelihood of more of the new generation planned to come forward.

Question 7: Do you agree with our minded to position to reject Part 2 of the derogation request, as it imposes additional risk on consumers and gives some connection customers an unfair advantage?

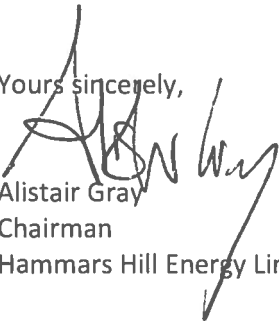
No, I do not agree that part 2 poses an unnecessary additional risk on consumers. The risk is limited in size and probability. SHE-Transmission has also proposed a mechanism to protect consumers from this risk where Ofgem disallows SHE-Transmission spend. I do not consider that this would provide Orkney developers with an unfair advantage, rather I believe it would provide an opportunity for connection on terms aligned with those available to GB mainland developers.

Part 2 of the Alternative Approach was developed because the industry standard methodology to securities and liabilities were prohibitive and discriminatory to Orkney developers due to the substantial costs associated with the sub-sea cable link and the risk placed on developers where costs are 4.5 times higher than mainland North of Scotland customers.

The adjustment to the security and liability proposal would take place prior to Ofgem's formal approval of the needs case and therefore any spend would be limited to

development costs only, not construction costs, so the proposal poses little risk to consumers.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alistair Gray', written over the printed name and title.

Alistair Gray
Chairman
Hammar Hill Energy Limited