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Dear Olivia

Consultation – SSEN Derogation request for Alternative Approach on Orkney

Thank you for the opportunity to respond to the above consultation.

HIE, alongside its Local Authority partners, Shetland Islands Council, Orkney Islands Council, Comhairle nan Eilean Siar, The Highland Council and Argyll & Bute Council, have long worked together to support the case for grid investment, and influence charging and access arrangements to support our aspirations to develop this region's significant renewable energy resource. Much of that effort has focused on the need for and means by which investment in island grid connection can be achieved. To that end, we are delighted that SSEN has now submitted needs cases for Orkney, Shetland and the Western Isles, and to be given the opportunity to respond to this consultation in relation to SSEN's proposed alternative approach to Orkney. We are also submitting a response to Ofgem's consultation on the SSEN needs case for Orkney, and we ask that this response be read alongside it.

In that response, we note our support for SSEN's proposed approach to Orkney, but raise concerns about Ofgem's proposed conditionality. We likewise have concerns about Ofgem's response to the Alternative Arrangements proposed by SSEN, specifically its position on the temporary derogation proposal in relation to securities and liabilities. Our detailed comments are set out below.

Nonetheless, we were delighted that Ofgem staff were able to visit Orkney recently and meet with project developers, Orkney Islands Council and SSEN. We do hope that those meetings and subsequent follow ups will provide Ofgem with further reassurance over the level of commitment by developers and Local Authority to see project and grid investment progressing.

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

Yours sincerely

A handwritten signature in dark ink, reading "Elaine Hanton", is displayed on a light-colored rectangular background.

Elaine Hanton

Head of Energy: Emerging Technologies and Regulation

In partnership with:-

Shetland Islands Council

Orkney Islands Council

Comhairle nan Eilean Siar

The Highland Council

Argyll & Bute Council

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?

Yes. The trial allows the benefits of the ready to connect process to be recognised in a real-life context. Bringing the alternative approach to reality will provide valuable lessons to the wider industry (ENA) as it will provide an insight into the potential impacts on the whole GB system, and potentially drive any future code modifications.

Further, it will provide a useful reference to assess options for alternative network access allocation which has been excluded from the scope of the current Electricity Network Access Project. As the Orkney connection will be a radial extension of the transmission network, it will allow this approach to be trialled without some of the complexities associated with operating it within a region of the mainland network.

In terms of interactivity, it would be valuable to assess how efficiently the queue management component works in reality, and how developers prove that they are ready to connect. Further, it would be interesting to see how projects influence each other, and how the scheme may drive competition.

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?

Yes. The same milestones and timescales will be in place for all generators to evaluate their readiness to connect. As all generators will have the same opportunity to develop their projects there will be no competitive advantage to one developer over another.

With the delivery plans tracking progression and requiring co-operation of stakeholders, we believe the proposal can deliver a fair and transparent allocation.

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, we agree that there will be no adverse impacts for the following reasons:

- **Consumers:** The Alternative Approach mitigates risk and associated costs to consumers as it allocates capacity to those projects ready to connect. It allows the least risk projects to essentially 'jump the queue' and therefore reduces the risk of stranded assets.
- **Competition:** Allowing developers an opportunity to connect through the Alternative Approach would encourage generators on Orkney to push forward with their projects to make sure they are ready to connect within a certain timeframe.

Therefore, there will be an incentive to progress quicker in order to be placed with the highest priority. It also reduces the opportunity for anti-competitive 'capacity hogging' which occurs under the existing first come first serve process.

- **Sustainable Development:** Granting the derogation request would provide an opportunity for Orkney to unlock more of its vast renewable potential. It would allow the 175MW of new generation planned to come forward in the most efficient and economic way. This is in line with UK and Scottish Government's aspirations to increase renewables generation, reduce carbon emissions and ensure economic benefits associated with doing so are captured.
- **Health and Safety:** Although difficult to comment on, we don't believe the alternative arrangement will have any impact on safety given that existing network planning and operation procedures will apply. In our own experience of working with SSEN, health and safety is treated as a top priority.

Overall, the alternative arrangements will help tackle current barriers to connection. It will also enable generators to compete, reduce carbon emissions and deliver socio-economic benefits to Orkney.

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?

We disagree that the proposal will pass unnecessary risk to consumers on several grounds, not least the adjustment to liabilities is proposed for a limited time only.

The main objective of Part 2 of the Derogation Request is to allow an opportunity for developers to connect without the excessive infrastructure risk which is currently a significant burden to small, independent developers on Orkney. We therefore believe that temporarily adjusting liabilities will mitigate risk because it will provide an adequate level of certainty, equivalent to that required by mainland developers, that the generators will progress to full commissioning. The adjustment to securities and liabilities would take place in advance in Ofgem's decision on the needs case and therefore spend would be limited to development costs in any case.

Overall, we believe the proposal will reduce risk to the consumer by allowing projects with the highest certainty to progress, whilst still requiring developers to post securities in line with mainland developers. In our view, the implementation of the Alternative Approach and the acceptance of the Derogation Request would warrant a more efficient process, reduce the risk of stranded assets, encourage competition in generation and facilitate development.

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

The proposal is fair because it creates a level playing field for Orkney developers. Essentially, the proposal reduces the current barriers that Orkney faces due to the lack of export capacity to the wider network. At present, developers on Orkney are required to commit to the securities and liabilities of the subsea transmission link in advance of construction. This is a significant burden for developers as they are exposed to large financial commitments of link construction, which in turn, makes investments in renewable generation more difficult.

Accepting Section 2 of the Derogation Request would exempt developers from the prohibitive costs of the transmission link for one year. The trial would allow renewable projects on Orkney to progress under the same circumstances as mainland customers.

To that end, we do not agree that Orkney has an unfair competitive advantage over mainland generators. We would however support consideration being given to extending the derogation to other Scottish Islands that encounter the same constraints.

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?

We believe the trial is reasonable.

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?

As discussed, we believe that Part 2 of the Derogation Request does not pose additional risk on consumers. In contrast, we believe it will mitigate risk because we believe it would facilitate capacity to the projects that are most developed. It allows the least risk projects to essentially 'jump the queue' and therefore reduces the risk of stranded assets.

To an extent, we challenge Ofgem's rejection of Part 2 of the Derogation Request on the basis that it gives some Orkney generators an unfair advantage. The alternative arrangements would only be granted to Orkney on a trial basis in order to remove the current financial constraints on generators that are ready to connect and therefore would not pose a long-term competitive advantage.

