

mpr@ofgem.gov.uk

15 January 2016

Dear Mr Randall

Introduction

Thank you for providing the opportunity to respond to the open letter entitled '*Consultation on a potential RIIO T1 and GD1 mid period review*' issued on 12 November 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 and Argyll & Bute 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. HIE also works closely with Scottish Government in relation to grid regulation matters.

Need for a mid-period review of RIIO-T1

We welcome this consultation as an important opportunity to review the efficacy of the inaugural 8 year, RIIO price control framework for electricity transmission. We consider that it is appropriate for the framework to be kept under review, particularly given that it is the first time that RIIO has been implemented by Ofgem – with lessons learnt since its implementation.

However, we are not convinced that there is justification for a mid-period review of RIIO-T1 based on the parameters set out by Ofgem. Although, there has been a change of UK Government and a resulting shift in the policy background, since the start of RIIO-T1, we consider that this does not undermine the basis of the existing RIIO-T1 outputs.

However, we do think there are a number of areas touched upon within the consultation that do warrant further work to ensure that the existing arrangements are fit for purpose and in the interests of consumers and network users. In our view these can either be addressed outside of a mid-period review or within a MPR focused on these specific issues.

Deployment of renewables

We do not believe that there has been a fundamental change in connections outputs as a result of changes in Government policy, particularly in relation to renewables, since the implementation of RIIO-T1.

We continue to support National Grid's Future Energy Scenarios as a strong benchmark against which system planning and investment is tested and outputs measured. We do not believe that the current range of scenarios described in the FES differs significantly from the range described at implementation of RIIO-T1, to the extent that a fundamental review of outputs is necessary.

Availability of Scottish Islands links

We support the introduction of availability incentives for transmission owners relating to generation, in a similar vein to the OFTO proposals.

We welcome Ofgem's recognition of issues related to single circuits connecting the Scottish islands. Single circuits have particular implications for the project financing of generation projects in the islands. External project financiers will require single circuit risk to be quantifiable, with clear steps attached to manage and mitigate such risk e.g. through appropriate insurance arrangements. The availability incentives structured in the OFTO regime have proved to provide an acceptable basis for financing and building offshore wind farms which have very similar requirements from lenders in this regard.

Transparency is required between the TO and developers in respect of the design, build and O&M regimes attached to single circuits. Such transparency should include an annual availability commitment from the TO.

Strategic Wider Works

The Strategic Wider Works (SWW) process has specific relevance to HIE's stakeholders, with many communities and proposed renewable energy projects dependent on the timely completion of these reinforcement works, including the Western Isles HVDC, Shetland HVDC, Orkney connection and the Caithness-Moray interconnector.

We welcome more certainty surrounding, and visibility of, the SWW process to help deliver the most efficient network in a timely manner. The SWW process continues to lack clarity for the wider network user community, and clearer guidance on process and timeframes (and justification for these) will be beneficial.

We also cautiously support the proposed continual review of SWW needs case during construction as an opportunity for Ofgem to de-risk the investment decisions associated with SWW projects. This should lower the barriers for approval of SWW and result in more timely delivery of required infrastructure. However, it is important that the process of monitoring does not introduce increased risk for network users whose project investment case is reliant upon progression of an approved SWW project.

Competitive tendering

We have reservations about the justification for the identification of projects for competitive tendering and request that Ofgem clarifies the reason that projects eligible for competitive tendering have been restricted to SWW. Specifically, in the context of a potential MPR, we consider the change in Government policy towards

the introduction of competition onshore justifies a change to the outputs from the TOs in relation to the delivery of new, separable and high-value system reinforcements.

Given that Ofgem has ruled out 'claw-back' under any MPR, it is not clear what justification Ofgem has for limiting the scope of competitively tendered projects to just SWW. This decision excludes a large suite of network investment under RIIO-T1 from being tested in the market place, therefore not providing the cost savings opportunity for the consumer, as identified by Ofgem.

Further, the decision to exclude non-SWW projects is at odds with the proposed review of SWW connections outputs, discussed above. It seems that the fundamental method for the justification of SWW reinforcements is being reviewed, but not the potential benefits of introducing competition.

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

