Hammars Hill Energy Limited

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Dear Sir,

Ofgem: Consultation – Orkney Final Needs Case

Thank you for the opportunity to respond to this consultation.

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.

I am 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. Hammars Hill plans an expansion to the existing site by adding an additional 9.95 MW of capacity.

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 a 30MW Wind Farm on Rothiesholm Head on the island of Stronsay one of the northern islands in the Orkney archipelago.

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.

We have been working on these projects for the past four years and to-date have invested circa £300,000 in legal, lease payments, community consultation, ornithology and ecology field studies, and have scoped the planning application with the statutory consultees. Consultants have been appointed to complete the Environmental Impact Assessment. This

represents a further investment of £159,000. We will be ready to lodge a planning application for both projects once we have certainty or otherwise on the needs case. The planning fee for each project is £125,000.

Let me start by saying that my developer colleagues and myself are committed to progressing the link. Many us have been involved in this project for well over a decade and we are keen to put our heads together to find a solution that works for all and de-risks the project as much as possible. All we are seeking is a level playing field inline with projects on the GB mainland.

Over the years there have been a raft of consultations, working groups and reports in connection with providing the Islands with additional access to the National Grid. Securing regulatory approval for the proposed new transmission cable has been a challenge.

In the recent past we have been working closely with SSEN to arrive at a solution, and as a developer community we endorse and support the needs case they put forward together with the Alternative Approach. We believe it provided a strong and compelling economic case for reinforcement and the best possible solution to unlock Orkney's renewable potential. We feel we are on the cusp of securing approval and cannot let this opportunity slip through our fingers.

In terms of the needs case, we welcome your minded to decision, although your conditionality is unachievable and will not be met. It is in fact punitive and as presented the criteria will negatively impact the delivery of a solution to unlock Orkney's renewable potential.

We understand and accept the need for conditionality, but we believe it needs to be proportionate and realistic. The main reason why conditionality does not work and why the Alternative Approach was developed was to overcome misalignment of timelines. Due to the timescales and delays to island connections, and the independent nature of many project developers, who don't have the financial resources of large PLC's, very few planning applications have been progressed in Orkney since without clarity of the cost and timescale of grid upgrades, and the lack of certainty over the support and charging regime, it has not been possible to make the business case for investment. In order to make an investment case SSEN first needs commitment from generators; however, generators need commitment from SSEN before they can progress. This misalignment is exacerbated on Orkney due to the diversity in generation capacity and technology type. We have no anchor wind projects on Orkney driven by large utility scale developers, consequently projects may not progress to the point of securing planning permission or reach financial close until there is further certainty that there is an opportunity for connection.

The additional conditions set by Ofgem are excessive and go beyond any requirements for mainland GB connections which only require a signed connection offer alongside payment of securities and liabilities. These far exceed what is required to demonstrate developer commitment and making the needs case conditional on securing finance and planning consent within the timescale is unattainable. It seems illogical that Ofgem are minded to approve part 1 of the Alternative Approach yet it does not form part of the conditionality.

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, in my opinion, unfairly discriminates against our geographic remoteness.

Orkney has been at the forefront of renewable energy development for over 30 years. With a history of land-based wind development at Burgar Hill, and the more recent arrival of wave and tidal development, hosted by EMEC, this has resulted in the concentration of unique expertise in the field of renewables, with its associated disciplines of environmental, civil, electrical, & mechanical engineering. This human resource, when combined with some of the best wind and marine resource in Britain, makes Orkney the perfect place for the commercial generation of electricity by means of renewable generation.

Orkney is also home to the highest concentration of small and micro wind turbines in the UK, as well as several larger community owned and commercial turbines, one locally owned wind farm (Hammars Hill), and one commercial wind farm (Spurness, Sanday - SSE). Wind power is the main energy source that allowed Orkney to become a net energy exporter since 2013.

A major strategic investment in Scottish infrastructure approved by Ofgem was the Caithness-Moray transmission reinforcement, which represents a £1.1bn capital investment by SHE Transmission and it must not be forgotten that the reinforcement was partly made to provide additional transmission capacity to export power from new generation located on Orkney and Shetland.

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.

We should not understate the transformational nature and scale of the opportunity to the islands. The investment would represent possibly the largest single investment in the island's history. In the decades ahead people will look back at this time as pivotal for the island's prosperity and development.

I believe that new generation in Orkney can deliver affordable and secure electricity and be part of the UK's transition to a low carbon economy. 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.

In 2013 the Baringa report for DECC and the Scottish government concluded that renewable generation from wind, wave and tidal in Orkney could make a significant contribution to the UK's renewable targets. Based on the evidence form the report and other sources, DECC concluded that Scottish islands warrant distinct treatment and a different level of support from other onshore projects to address the funding gap, and this formed the basis of a Scottish island strike price of £115 per MWh for onshore wind projects as part of the first EMR delivery plan.

The ability of wind power to reliably contribute energy to electricity networks is directly related to the characteristics of the wind resource. In Orkney, we have a world class resource. On the Hammars Hill wind farm, which has been operation for 8 years, the average annual capacity factor has been 47.05% (net of average annual curtailment under the Active Network Management system of 6%).

Studies have shown that a large geographic spread of installed capacity can reduce wind power variability, smooth production and increase security of supply as wind speeds experienced in different areas throughout the UK are not 100% correlated over time. The smoothing effect has been the focus of numerous studies. While the wind is blowing in Orkney, it is not necessarily doing so in the south east of England. Generation in the north therefore provides security of supply to the national grid and provides value to the consumer through avoidance of capacity market payments.

Onshore wind is one of the lowest cost forms of new-build electricity generation in the UK. Delivering for businesses across the UK; creating jobs, economic growth, security of supply, promoting sustainability in local communities and in doing so delivering on the grand challenge of clean growth. Already considered the cheapest form of large scale new-build electricity generation, the sectors levelized cost of energy is forecast to continue to fall further over the next decade as innovation progresses. At the same time demand is forecast to increase through the decarbonisation of transport and heat. Against this background the withdrawal of the Japanese from investing in new nuclear in the UK appears to leave the UK energy policy in tatters. The message is clear. Time is running out. The world is nowhere near where it needs to be on the transition to a low carbon economy. Within a decade we need to get most of our electricity from renewables. Orkney can contribute significantly to the security of supply that the UK needs.

Response to Orkney Final Needs Case:

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

Yes, for all the reasons noted above, and:

- The distribution network in Orkney is supplied from Thurso by two 33kV subsea cables. At present there is no transmission infrastructure on Orkney. In 2012 the Orkney network reached full capacity and Scottish Hydro Electric Power Distribution (SHEPD) introduced a moratorium on the connection of any new renewable projects to the distribution network.
- The two existing distribution cables are near the end of their useful life. One of the cables has just failed in the past week and although an emergency repair is being affected these cables will require to be replaced soon. There is an opportunity to displace future costs on the distribution network and save costs on the standby diesel power station in Kirkwall through reinforcement with a new transmission link. Investment in a transmission connection can only improve security of supply and reduce cost for consumers.
- Orkney can make a very substantial and cost-effective contribution to meeting the UK's legally-binding renewable energy targets and help safeguard our energy security. These issues cut to the very heart of the current energy debate and make the case for the development of renewable energy on the islands so compelling.

- Orkney's renewable energy sector, although currently constrained by lack of grid capacity, is now a major part of our economy, supporting jobs, providing community benefit and generating investment, and is key to our environmental ambitions and the transition to a low carbon economy.

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's scenarios.

I agree that the generation scenarios are a reasonable assessment of the probable scale of new renewable energy generation capacity on Orkney and note that even without tidal generation being developed within current timeframes, the link is still viable under their scenarios.

The withdrawal of support by UK Government for marine renewables undermines current development of marine renewables within the UK and while technology readiness is not commercially viable at present, EMEC has never been busier within the R&D field having recruited over 20 new posts during the past two years.

Established in 2003, The European Marine Energy Centre (EMEC) Ltd is the first and only centre of its kind in the world to provide developers of both wave and tidal energy converters – technologies that generate electricity by harnessing the power of waves and tidal streams – with purpose-built, accredited open-sea testing facilities.

Orkney is an ideal base for marine generation with its excellent oceanic wave regime, strong tidal currents, sheltered harbour facilities and the renewable, maritime and environmental expertise that exists within the local community.

With 13 grid-connected test berths, there have been more marine energy converters deployed at EMEC than at any other single site in the world, with developers attracted from around the globe to prove what is achievable in some of the harshest marine environments.

In addition to the wave and tidal sites, EMEC has an onshore hydrogen production plant on the island of Eday where green hydrogen is generated from surplus tidal and wind energy. With a view of developing a hydrogen economy in Orkney, their demonstration site for new hydrogen technologies is a key element of various hydrogen research projects.

The scenarios for wave and tidal cover a wide range of possible generation. With over £40m of UK Government investment in the EMEC facilities alone, Orkney is an ideal location to host then next phase of commercialisation of the sector. While marine renewables are still in the early stages of development, there is a need to secure additional grid capacity for future marine technologies, and there is huge potential for this sector to contribute to the UK's industrialisation strategy and transition to a low carbon economy.

Scale is the key driver of cost and given the size of offshore wind developments, in my opinion, projects in Orkney have no prospect of competing with offshore wind if included within the same allocation pot. It is naïve to compare the cost of offshore wind with RIW. Offshore wind can no longer be rationally classified as a "less established" technology so unless offshore wind technology is reclassified or a minimum reserve RIW budget is established a CfD has little relevance for Orkney projects; and I should say that BEIS appear

to have no appetite to make these changes without which RIW CfD is doomed. Technically, there may be a remote possibility of a relatively small onshore wind project slipping into an allocation round based upon installed capacity to top-up the minima capacity of an auction which would otherwise be breached by a large offshore wind project. That is an enormous risk to take in view of the significant cost of the CfD bid process given the relatively small scale of the Orkney wind projects.

I have therefore always assumed that our projects need to be subsidy free and indeed as currently modelled they work subsidy free. However, this is based on the current charging regime for distribution connected projects. A CfD does of course only provide a guaranteed price for 15 years of a 25-year project's design life, and BEIS's own analysis suggests that the wholesale price would exceed the levelized cost of onshore wind backed by a competitively auctioned CfD from 2023 (the earliest date of our proposed grid connection in any case). While a CfD does of course provide a bankable revenue stream if you are funding your project through traditional project finance, it will commercially never maximise project revenue. The market is evolving quickly and there are different commercial opportunities and routes to market.

In order to ensure that the project is as competitive as possible in the levelized cost of energy market any new onshore wind project needs to be viable in a subsidy free environment. Turbine technology is evolving fast and costs are falling. There is the corporate PPA market and the opportunity to co-locate assets (solar and storage).

Under separate cover I have submitted excerpts from the financial models for both projects to illustrate the subsidy free scenario. **Please treat this information as confidential and do not publish.**

Due to the timing of the next CfD auction, much of the first phase of potential new generation onshore wind projects are unlikely to be able to participate. However, I do not believe that the outcome of the 2019 CfD auction is likely to have a significant bearing on the first phase deployment of new onshore wind generation capacity on Orkney.

The biggest treat is not the uncertainty of CfD, but the uncertainty created by Ofgem's proposal to reform grid charges. Under your Significant Code Review changes to charging arrangements have potentially significant impacts for all generators – existing as well as new, and it is noted that you particularly draw out the potential impact for generators on Orkney where transmission links are planned. You identified that the unusually high TNUoS that would apply in Orkney has historically undermined the financial viability of projects which results from the distance these projects are from the main transmission system and you note that the changes in the RIW CfD have been introduced in part as a result of these, although with a CfD being such a remote possibility for Orkney, projects will face the full impact of the proposed realignment of distribution and transmission charging. Half the renewable projects in the north of Scotland must be distribution connected and don't operate at the capacity factors we do in the north so if there's no grandfathering rights to protect projects from retrospective changes this could potentially bankrupt half of the sector and leave stranded assets throughout the UK. Setting aside the potential impact on existing projects, how can you be pressing us to progress to financial close under your conditionality when in the background Ofgem are considering introducing unquantified significantly higher network charges at a future date. You are yourselves creating additional risk to UK consumers by these actions.

Can you provide me with an estimate of what charges I will pay under the proposed realignment of distribution and transmission charging to determine the impact that this will have on the financial viability of our investment decision?

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

I note that Ofgem have confirmed they are satisfied with the technical solutions identified in the Needs Case and will be progressing with the detailed design and competitive pricing of the scheme for inclusion in the Project Assessment, should the Needs Case be approved. I don't have the qualification or experience to comment further on this question, although I note on page 35-36 of the accompanying DNV-GL report for Ofgem they recommend that an integral network analysis should be undertaken to further inform assessment of the Orkney transmission link.

I think that both SSEN and Ofgem need to be more forward looking and innovative to get even more out of the Alternative Approach by alignment of connection agreements across both distribution and transmission. Locally, there has been concern expressed over the visual and environmental impact of the planned transmission infrastructure. So far, the general public have failed to realise the double impact of building separate transmission and distribution connections, and the potential negative impact which this may have on the outcome of individual projects achieving planning permission. Common sense would dictate that rather than planning the transmission and distribution network separately, an integral approach would reduce costs to the consumer as well as providing the "least cost option" to developers which could only improve the economic reality of developing a project in a competitive levelised costs of electricity market. There is no doubt that the negative commentary about the transmission route for the Hollan Energy "Costa Head" project impacted on the planning decision. Effective interface between distribution and transmission investment would reduce environmental and visual impact and minimise cost.

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?

I do not agree with the concerns expressed by Ofgem. As part of the Needs Case submission, SSEN submitted a Cost Benefit Analysis (CBA), based on established industry standards and Ofgem guidance. This analysis identified the a 220MW (220kV) link as the most economical solution and that the breakeven threshold occurs at 70MW of new generation connections, where the lifetime costs of developing the link is equal the estimated value of constraining that generation off from the system should no link be constructed.

I understand that the constraint-based CBA presented by SHE-Transmission follows well-established industry base practice used to assess similar transmission investments across the UK.

I note that SSEN has undertaken additional work at Ofgem's request to address Ofgem's concerns regarding its applicability to radial extensions to further test their conclusions arising from the constraint avoided CBA. I am concerned that Ofgem are applying more stringent conditions of assessment for island transmission links than that undertaken for GB Mainland connections.

In addition, Ofgem has disregarded well-established industry best practice and its own guidance in being selective in their interpretation of the analysis provided in support of the appropriate trigger point.

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?

SSEN's "additional CBA" analysis considers supplementary benefits including CO2 reductions arising from generation displaced, network development costs avoided if link is constructed, and developers TNUoS charges, amongst others. The benefits are compared to the costs of the link and any additional consumer costs that arise or would be avoided resulting in a net value for the GB consumer.

I believe that this "additional CBA" analysis provides a robust assessment of the net impact for the GB consumer of their proposed reinforcement solution for Orkney. It builds upon the scenarios considered by the constraints avoided CBA and further validates those initial findings.

Question 6: What are your views on our proposed conditions of approval? Specifically:

6.1 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?

I consider that the threshold set by Ofgem is unsubstantiated and an unachievable target within the current timescale.

The 135 MW generation threshold proposed by Ofgem is determined by taking the mid-point between the 70 MW 'breakeven' value identified by SSEN, and a value of 199 MW identified by the ESO as the level at which the optimum solution 'tips' between 132kV and 220kV. Both the 70 MW 'breakeven' and 199 MW 'tipping point' are calculated using the constraints avoided approach. I believe this argument is fundamentally flawed. Ofgem are using two different measure that are fundamentally different and therefore not suited to comparison. A simple "mid-point" is inappropriate.

The 135 MW generation threshold was tested by Ofgem using a similar additional CBA approach, but excluded all cost adjustments and benefits proposed by SSEN. Ofgem is therefore being selective and discriminatory on when and where to apply the constraints avoided approach, ignoring wider consumer benefits the link will provide. Ofgem has not adjusted the 'cost' of the link to the GB consumer with the revenue resulting from TNUoS charges transmission generators will pay. This is a particularly relevant point given Ofgem's proposal to reform grid charges. You have also not considered the future cost savings on the distribution network (replacement of existing sub-sea links) and the cost savings on the standby diesel power station in Kirkwall. If these additional, benefits and cost adjustments are included, SSEN concludes that the generation threshold that represents value for money for the GB consumer is lower than the 135 MW proposed by Ofgem.

SSEN recognises that the development of radial reinforcements to the Scottish Islands is challenging but believe their analysis is robust and balances the need to respond to

their customers' needs, enables development to support long term, legally binding government renewable targets, and safeguards GB consumers from inefficient investment. I believe that, when considering the wider range of benefits, value for money at a lower generation threshold is clearly achievable and that imposing the 135MW criteria will negatively impact the delivery of a solution to unlock Orkney's renewable potential.

6.2 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?

I do not agree that the signing up to the Alternative Approach does not provide an adequate level of certainty. 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 as evidenced by the level of investment we have already made in our projects. 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 Alternative Approach submitted by SSEN acknowledges the timing mismatch and attempts to change the risk profile for the benefit of both the developer and GB consumer. Without such a solution, island links will remain caught in this catch 22 position. This provides certainty beyond the conventional industry arrangements by requiring developers to enter into a queue management system where they are contractually obliged to meet timescales set out in their delivery plans or face losing their position in the capacity queue.

For my own projects we have been working to the Alternative Approach timescale and as noted above have already incurred not insubstantial project development costs. I have supplied the above financial information as evidence of developer commitment.

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. Securities and liabilities depend on a project's specific size and location as well as the connection assets required. This can only be confirmed once the project has been through the transmission connection process.

I would argue that given the sums Orkney developers must provide incurs significant additional risk than projects on Mainland GB. In doing so Orkney developers will be providing a stronger indication that projects are likely to progress to full commissioning through this direct commitment.

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.

The industry standard methodology for calculation and payment of securities and liabilities was developed considering the risk to consumers and how this risk is reduced when planning permission is secured. The securities and liabilities methodology also assume that 4 years prior to connection, a project would not have planning permission or financial close and securities are lowered. Ofgem's conditions go above and beyond any requirements of mainland GB connections. The industry standard methodology for securities and liabilities was developed considering the risks on consumers and how this risk is reduced when planning permission is achieved. Industry standard for securities also considers that planning and finance would not be in place for projects at this point.

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.

Following Ofgem's minded to decision to reject part 2 of the AA, Orkney developers appear amenable and able to progress projects under the standard industry approach to securities and liabilities (which costs are 4.5 times higher than mainland North of Scotland customers), this must be recognised as a strong indication that projects are likely to progress to full commissioning.

Any additional requirement required from Orkney developers, without commercial agreement would arguably be discriminatory to those generators by going beyond the requirements set out in schedule 15 of the CUSC.

Over the past decade, there has been extensive pre-planning and site assessment work undertaken, and with the aid of the Alternative Approach there is a very strong likelihood that those projects can proceed. With several projects in the pre-planning stage, this means that if one developer drops out then there are others that can jump the queue.

The contractual framework underpinning the Alternative Approach demonstrates a significant commercial commitment from generators, and the Alternative Approach creates a competitive environment for generators to be ready to connect by submitting realistic delivery plans; however, the main implication of this to both generators and investors is that the grid connection date and costs are less certain.

Ofgem have not considered the additional risks that developers are accepting by signing-up to the ready to connect process.

I believe that this proposal provides Ofgem with greater certainty and holds developers to commitments beyond current industry standards.

6.3 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?

I agree that the award of a CfD to a generator provides a degree of confidence that a generator will progress to full commissioning. However, the CfD support mechanism as designed favours large utility scale developers who can carry the cost and risk of developing projects up to the point of planning and grid connection. We have no large-scale utility developers on Orkney. We are mainly locally owned and locally funded private developers and because of the reasons which I set out under question 2 above, I consider that this condition set by Ofgem is unrealistic, discriminatory, and goes above and beyond any requirements of mainland GB connections.

To incorporate a pre-condition based on 100% of projects receiving a CfD is absurd and discriminates against projects which simply do not want to bid for a CfD due to the cost and risks associated with the bid process. This will exclude all subsidy free projects.

6.4 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?

No, I do not agree with the proposed additional conditionality and maintain that, in conjunction with the backstop date of December 2019, these additional conditions are prohibitive to Orkney developers progressing. The Ofgem conditionality is unachievable and will not be met. It is in fact punitive and discriminates against Orkney developers. As presented, the criteria will negatively impact the delivery of a solution to unlock Orkney's renewable potential.

The main reason why the additional conditionality does not work and why the Alternative Approach was developed was to overcome misalignment of timelines. Projects have not and cannot progress to the point of securing planning permission or reaching financial close until there is further certainty that there is an opportunity for connection.

The additional conditions set by Ofgem:

- Go beyond any requirements for mainland GB connections which only require a signed connection offer alongside payment of securities and liabilities;
- Do not address feedback and concerns of developers who have been working with SSEN on developing the Alternative Approach and do not align with industry proposals in terms of assessing connecting parties' certainty of connection through queue management. This is apparent in Ofgem's inclusion of financial close being associated with generator's certainty. Feedback from the ENA's original queue management work noted network operators should not determine when a project has met financial close. In any case, what exactly do you mean by securing finance?

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. Based upon my banking and funding experience, I would be astonished to find a lender achieving financial close so early in the development cycle.

6.5 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?

Alternative proposal for conditionality:

- Generation threshold – 70MW
- Generators signed-up to the ready to connect Alternative Approach
- Timeline – April 2020 to align with SSEN's revised construction timetable
- Backstop – December 2020 to provide flexibility for later projects to secure planning permission and alleviate uncertainty associated with charging review

Question 7: Do you agree with our assessment of the Orkney project against the criteria for competition?

I'm not qualified to comment on this question.

Question 8: Do you agree with our proposal not to competitively tender the Orkney project using the SPV model or under our CATO framework unless there are significant delays to the delivery timelines?

I'm not sufficiently versed in this process, although as a commercial developer I would always go out to tender!

Question 9: Do you agree that the Competition Proxy Model would deliver a favourable outcome for consumers relative to the existing SWW delivery arrangements?

Again, I'm not qualified to comment on this aspect.

Question 10: What are your views on the way in which we have applied project specific updates to the Competition Proxy Model methodology to account for the specific characteristics of the Orkney project?

Not qualified to comment constructively on this question.

Yours sincerely,

Alistair Gray
Chairman
Hammars Hill Energy Limited