

National Grid Electricity Transmission Stakeholder Engagement Consultation

There are a number of areas where our stakeholders have asked us for further explanation, or we would like to discuss a topic in more depth with stakeholders in order to be able to develop our business plans. We would welcome your thoughts on the questions listed below.

We request that you provide your answers by **5pm on Friday 18th November**. Responses received by this time will be taken account of in our business plan development. When responding can you please provide us with your name, contact details, the name of the organisation you represent and whether your response is confidential.

We have scheduled a workshop for 10th and 11th November, where we will be discussing the topics surrounding the questions below. We would be pleased to welcome you at this workshop where you will have the opportunity to discuss the topics below with National Grid staff, in order to aid your responses to these questions.

If you have any queries please email talkingnetworkstransmission@uk.ngrid.com or call Graham Frankland on 01926 653667 or Claire Spedding on 01926 655915.

Responder's Details

Name: John Cunningham

Organisation: Comhairle nan Eilean Siar (Western Isles Council)

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Is your response confidential? No

Business Plans

Q1. Did you find our business plan documentation easy to navigate?

The document is fairly easy to navigate although there seems to be unequal coverage of areas in the headline documentation, for example two pages are given over to Managing Uncertainty and Risk while Network Expansion, the most critical area for the Outer Hebrides, is restricted to just four sentences.

Q2. Did you find the content contained within our documentation easy to understand?

The content is fairly easy to understand, particularly given the complexities of the UK electricity network. The easy to follow language is helpful but it is questionable whether this prepares one for full engagement with the intricacies of National Grid's SO and TO roles. In this respect, the Stakeholder events have been incredibly helpful but attendance is expensive.

Q3. What did you particularly like/dislike about the presentation of our plans?

The three tier Headline, Overview and Detail approach is very good and leads the non-specialist effectively into the subject area.

Q4. What improvements could be made in terms of content, structure or format?

Content of the Headline document could be better and more focused. Network expansion gets very limited coverage while other, less important areas are covered exhaustively. Although not directly related to NGET's business plan, the Comhairle is very concerned about the proposed RII-O-T1 incentives: Customer Satisfaction; Safety; Reliability & Availability; Conditions for Connections; Social Obligations; and, Environmental Impact. These incentives drive the direction of travel for industry business plans and NGET are no exception. Achievement of UK and European Carbon reduction targets should be the key driver for our national electricity network and focussing on areas like customer satisfaction and network availability will not move the network to a post-fossil fuels situation. Wider Climate Change imperatives should be recognised and included in these incentives along with a stronger sense of the socioeconomic benefits which flow from Grid investment in remote, fragile areas.

To an extent, the Outer Hebrides is a closed economy, traditional industries are declining and the key hope for the future is renewables. Without a new focus on Carbon reduction, there is the danger that necessary Grid upgrades to enable the islands to play their part in the attainment of national and continental targets will be abandoned. We ask NGET to lobby OFGEM for a move away from internal business drivers for RIIO-T1 to external Climate Change and global sustainability criteria.

Q5. In terms of the business plans themselves did we represent your views and previous feedback correctly? And do you think we have incorporated it into our plans correctly?

Since SSE is Transmission Owner (TO) for the North of Scotland, our feedback to National Grid on TO matters has been limited. We have, however, had extensive engagement with SSE. Feedback on the island generation situation has been consistently made at various NGET workshops but it is difficult to see whether these concerns have been reflected in the latest plans. Although comments on another TO's area of responsibility might appear irrelevant, Transmission tariffs as influenced by NGET, and User Commitment formulations, as set by NGET, are proving a critical blockage for renewable energy projects in the Scottish Islands. We therefore feel that NGET have a critical role, through tariff setting and CMP192 User Commitment revision, in releasing the current blockage to development in the Scottish islands.

Managing risk and uncertainty

Q6. Do you agree that uncertainty mechanisms should be employed to adjust allowed revenues where the associated costs are uncertain and outside of our control? If not, what other mechanisms do you consider could be appropriate?

Effective management of uncertainty with capacity to respond to unforeseen developments is essential in the area of renewables. With Offshore Wind coming on stream more quickly than anticipated and marine developments accelerating fast, it is only right that NGET incorporate mechanisms to deal with unforeseen events.

Q7. Do you believe that the range of the uncertainty mechanisms proposed is appropriate?

The range of mechanisms seems appropriate but, again, the Comhairle is more concerned with SSE's risk management policies. Loading the entire risk for long Radial Connector links onto small private developers is unfair and, in the Outer Hebrides, this can mean three relatively small schemes underwriting £400m of risk. Access to the massive renewable resource around the Scottish islands should be a matter of National Interest and Grid strengthening should be a strategic process. The prospects of a particular investment should not hinge on the ability of two or three small private developers (as in the Outer Hebrides) to commit to cable underwriting. There is too much at stake in terms of the national interest for critical transmission investments to be determined by the balance sheet of small private developers. SSE, as North of Scotland TO, should be working with NGET and regulators to devise a more satisfactory method of underwriting key, strategic elements of infrastructure. The Transmission Investment Incentive mechanism may have suited an earlier time when network investments were modest and incremental but a new approach is required today as SSE face a £3-4bn schedule of infrastructure investment to keep pace with the renewable energy industry.

Charging

Q8. Are predictability and transparency your key concerns in relation to electricity transmission charging? Why?

Forecast Transmission Charges for the Outer Hebrides are currently almost four times the Charge for the nearest point on the North of Scotland mainland. The current forecast Charge is £97 per kW compared to a £6 per kW subsidy in the South East of England. This situation is discriminatory and is blocking renewable energy developments in Europe's area of best resource. A developer seeking to build a 150MW onshore windfarm in the Outer Hebrides faces a £15m per annum levy for transmission. The same 150MW installation 40 miles away on the Isle of Skye, with an almost identical windload factor, attracts a transmission levy of only £4m. A developer building the same scheme in the South East of England would actually be paid to transmit electricity. This arrangement is intrinsically unfair. While predictability of Charging is essential, AFFORDABILITY is just as important and this is often lost sight of in areas of the UK where Transmission Charging is simply not an issue.

Q9. Changes to tariffs can be caused through changes to the methodology that dictates how tariffs are calculated (e.g. through project TransmiT) and changes to the inputs to that methodology. Which of these factors are of most concern to you?

Current forecast Transmission Charges are rendering onshore wind schemes in the Outer Hebrides - and in Orkney and Shetland - non-viable. At a time when the best resource in Europe must be accessed in order to meet Scottish, UK and European Carbon reduction targets, it is irresponsible of regulators to let this situation continue. The locational element of TNUoS must be reviewed to remove this blockage on development. Chris Huhne, UK Secretary of State for Energy and Climate Change has publicly stated that the Grid must go to where the resource is. The locational element, which makes up 73% of the total Outer Hebrides TNUoS charge, must be reduced, through socialisation of the differential, if necessary. Recent draft outputs from Project TransmiT suggest that the island situation could become even worse through the TransmiT process. This can not be allowed to happen. Redpoint (Project TransmiT modellers) appear to arbitrarily apply Security Factors to the island situation and this alone can double the Outer Hebrides total forecast tariff to an outrageous £144 per kW. Windload inputs seem to be erroneous with Outer Hebrides falling well below Orkney and Shetland. Our experience is that the wind regimes do not vary that much between the island groups. For island schemes to become viable in the longer term, the total use of system tariff must drop to between £30 and £40 per kW.

Q10. Charges are made up of a residual element (changes to which alter the charges all customers pay) and a locational element (changes to which modify the relative signals between customers). The predictability of which of these elements is most important to you and why?

Both the residual element and locational element may be predictable but predictability does not mean affordability. The locational element, which accounts for 73% of the Outer Hebrides total tariff, is destroying the viability of island schemes. Developers cannot proceed with consented schemes because forecast tariffs render them non-viable. As a DIRECT result, island developers are unwilling to privately underwrite the costs of necessary Grid upgrade to the islands (in our case, a £400, 450MW Radial Connector from the Main Interconnected Transmission System at Beaulieu). The outcome of all this is that our TO is unable to commence procurement

of the Radial Connector and millions of pounds of private investment could be lost from the fragile island economy. If the TNUoS impasse continues much longer, the Radial Connector will be abandoned and a transformational new industry will be lost to the Outer Hebrides with all the socioeconomic benefits it can bring in terms of fabrication work, research and wider supply chain opportunities. National Grid should do all in its power to ensure that island tariffs, while cost reflective, are not blocking development. And it is not sufficient to say that the exercise of the Secretary of State's powers to cap Transmission Charges under Section 185 of the Energy Act 2004 will resolve the island situation. Section 185 is a temporary 10 year fix which hardly enhances investment certainty for a 25 year project.

Q11. Can we do more to help you understand and predict transmission charges?

Comhairle nan Eilean Siar has a very good understanding of Transmission Charges and their impact. Predictability, while appreciated, is not the main issue. Transmission Charges simply must become more affordable in the Scottish Islands otherwise a National Interest resource will be left stranded, Carbon targets will be missed and a fragile economy will be left without this once in a generation transformational opportunity.

Q12. Do you have any suggestions as to how we can improve predictability/transparency?

Comhairle nan Eilean Siar supports wider socialisation of costs within the UK electricity network to help move it away from an outdated focus on fossil fuel generation around the main cities. Left to the market, areas of best renewable resource will not be accessed with all the attendant negative impacts. Comhairle nan Eilean Siar however accepts that an element of cost reflectivity is inevitable to regulate Grid expansion and urges NGET and OFGEM to create a new Island Zone, pitched slightly higher than the Scottish mainland to reflect capex connection costs, but partially socialised to avoid the worst excesses of a market led system. This Island Zone could 'float' above the North of Scotland zone so that linkage is maintained between the two charges.

Q13. Is stability of charges an issue, providing it is forecasted and predictable?

Again, stability of Charging is appreciated but the scale of current Charges is blocking all development. As stated above, the Section 185 'fallback' scenario provides certainty for 10 years but this is not sufficient for schemes with a lifetime of 25 years. Investor certainty is important and should be enhanced through a stable and enduring post-Project TransmiT regime, shaped to ensure compatability with EU wide tariff changes in 2016, for instance with regard to a change in the Generation / Demand split from 27/73 to 15/85. The Scottish Islands require a significantly lowered locational tariff to ensure competitiveness, remove discrimination and help NGET meet its decarbonisation and security of supply targets.

Network Availability Policy

Q14. Do you have any comments on our draft Network Availability Policy?

Network availability in the Outer Hebrides is a matter for our TO, SSE. An extensive response has been submitted to SSE as part of their Business Plan consultation earlier in 2011.

SO/TO Interaction

Targeted N-1

Q15. Are we missing any issues and / or actions?

Comments on TO interaction have already been submitted to SSE.

Q16. What views do you have on risk trade-offs?

Comhairle nan Eilean Siar has no view on this matter.

'Smarter' transmission network

Q17. Do you agree the transmission system is reasonably smart?

The UK network is relatively smart on the supply side but requires considerable upgrading on the demand management side. Smart management of demand at the household / business level will be key to the meeting of carbon targets and additional work is required on the demand side.

Q18. Which approaches do you consider relevant/important/likely to bring benefits over the next ten years? Which approaches do you consider to be irrelevant/unimportant/unlikely to bring benefits over the next ten years?

Balancing of intermittent generation will be critical for the North of Scotland where so much generation will be of this sort. With Scotland aiming for 100% demand equivalent Renewable Energy generation, balancing of intermittent generation will be

very important. Major security of supply, carbon reduction and cost benefits will accrue over the next 10 years from this approach.

Q19. Have we missed anything, e.g. is there technology that we are not considering but should?

There is little in the Business Plan regarding emerging marine renewable energy technologies. While not relevant to large parts of the UK, these nascent technologies represent the future for the Outer Hebrides and should be factored into UK SO plans. The largest area of potential for electricity generation is in the marine environment West of Hebrides. The Scottish Government and The Crown Estate recently developed comprehensive Regional Locational Guidance for Saltire Prize in Scottish Territorial Waters and it was no surprise that the area West of Lewis was selected as one of only two preferred Saltire deployment areas for wave energy. Wave energy in this area is the strongest and most consistent in Europe and exceeds that in Shetland by a large factor. The Crown Estate has already granted seabed leases of 50MW for this area but, again, the principal constraint is lack of Grid. These generators have told the Comhairle that the best returns over the 2014 to 2025 timescale are going to be West of Hebrides and that it makes little commercial sense to make expensive deployments elsewhere when the ultimate rate of return will be so much poorer than in West of Hebrides. The level of frustration at the lack of Grid among these generators is palpable. Given the scale of resource and the level of international interest, the Comhairle fully expects generation of 1GW+ to be deployed in the waters West of Hebrides by 2025. One major developer has discussed with the Comhairle firm proposals to deploy a single 500MW array of floating wind turbines in the North Minch by 2018. This demonstrates the will of developers and the scale of investment required of SSE in order for Grid infrastructure to keep pace with development of the marine renewable energy industry around the Outer Hebrides.

Q20. Do you think that we have chosen the most appropriate mix of RIIO-T1 methodologies for reflecting investment in wider works? If not, what alternative arrangements would you propose?

SSE's expenditure forecasts in terms of routine network maintenance and asset replacement seems reasonable. The key concern for the Comhairle is the significant 'one-off' expenditure required to deliver the proposed £400m Western Isles Radial Connector. This link is absolutely fundamental to the Comhairle's development aspirations and continuing delays are significantly hampering the Outer Hebrides economy and are contributing to continued depopulation and structural economic decline. To the extent that it is within SSE's power, SSE should prioritise this link in order to deliver energy from Europe's area of best resource and to help regenerate island communities. The Comhairle urges NGET to support SSE to be innovative in exploring joint venture or partnership means through which this link can be secured.

Q21. Do you have any comments on the ODIS future scenarios stakeholder engagement process?

The Comhairle has no particular comment in this area.

Q22. Do you agree with our proposed approach to identifying, optimising and triggering wider works in a timely fashion?

Construction of the proposed Western Isles Radial Connector is in the national interest in terms of contributing to carbon reduction targets and is absolutely central to the regeneration of the Outer Hebrides economy. Any delay in the construction of this link will further compound structural economic decline in the Outer Hebrides and will feed continuing depopulation. With 462.2MW already operational, consented or in advanced development in the Outer Hebrides, there is no time to be lost in the provision of this link and we have urged SSE to prioritise this element of transmission investment, if necessary through innovative partnerships and joint ventures.

SO Investment

Q23. Do you think that the timing of our SO investment plan is appropriate?

The Comhairle is more concerned with SSE's investment plan as TO. As stated above, the new Radial Connector for the Outer Hebrides MUST be procured without further delay. The initial 450MW cable can be quickly filled with schemes already operational, consented or in advanced development and the proposed second 450MW cable will then be available for marine deployments. The Crown Estate has already granted 50MW of marine energy leases West of Hebrides with more to follow. The new Radial Connector must be in place by October 2015 as scheduled and NGET have a clear role in determining tariffs and reducing prohibitive User Commitment liabilities so that private underwriting of this essential link is not delayed.

Q24. Do you agree with our approach in balancing the mix of resources and IT systems in undertaking the SO role?

IT systems require significant investment to keep pace with supply and demand management innovations. As stated above, IT systems to balance intermittent generation and allow more effective network management, particularly on the demand side will be essential.

Q25. How do planned / unplanned outages of our control room systems affect you?

Outages are inevitable in an area of extreme weather served by an outdated wood pole service. The Comhairle has pressed SSE to invest in failing plant as well as look to new solutions such as Smart Grids and HVDC links. However, the new HVDC Radial Connector is the absolute priority and NGET are asked to support SSE in its provision.

Q26. Do the benefits identified from our investments justify enhancing our control room capabilities?

Control room capabilities must be improved to facilitate demand side management and the embedding of Smart Grids.

Future Engagement

Q27. What have you liked about our Talking Networks engagement?

The Comhairle appreciates NGET's consultation efforts which far exceed the endeavours of other industry agencies and regulators. Full opportunity has been given to allow input into NGET business planning and simple explanations of complex systems has been genuinely attempted. The Comhairle is grateful for the support of individual members of staff in progressing island solutions. No request for help from NGET has ever been refused.

Q28. What could we have done better?

It is difficult to see what could be done better. The main requirement for the Outer Hebrides is that NGET, OFGEM, DECC and the North of Scotland TO work together to break the current interconnection impasse. We see little evidence of this joint working in Project TransmiT but are grateful for minor breakthroughs by participating partners such as the proposed revision of User Commitment by NGET through CMP192.

Q29. What do you like / dislike about the day-to-day stakeholder engagement activities we carry out? For example, the SO Incentives consultation, new transmission route consultations. What else could we do?

The Comhairle has no problem with day to day SO engagement.

Q30. How would your organisation like to be consulted in the future?

Yes, Comhairle nan Eilean Siar would like to be consulted on all matters related with electricity transmission. Contact details are: John Cunningham, Strategy Manager, Development Department, Comhairle nan Eilean Siar, Sandwick Road, Stornoway, Isle of Lewis, Western Isles, HS1 2BW / ☎ 07789 878840 / jcunningham@cne-siar.gov.uk