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## **HIE Response to Treatment of anticipatory investment in determining the local TNUoS tariff for the western isles link open letter**

Dear Patrick,

We welcome the opportunity to respond to this consultation which has been developed in close partnership with Comhairle nan Eilean Siar. I note the needs case for the Western Isles link strategic Wider Works has not yet been concluded and therefore, the response to this consultation is based on the proposed system design that is described in the consultation letter.

HIE supports the proposal of a second HVDC underground cable link, as proposed by SHE Transmission. We believe that this investment represents the least worst regrets scenario, particularly in the context of the planning and consenting risks as well as the potential cost reductions available against future reinforcement.

### **Responses to consultation questions**

#### **Question 1: What are your thoughts on the options presented for treatment of proposed anticipatory investment with respect to the Western Isles link?**

HIE would like to support Option 1 as it aligns well with the existing charging arrangements for both onshore and offshore generators.

HIE supports the more refined calculation of local circuit expansion factors. We believe that the method adopted for calculating the tariffs relating to the offshore and onshore circuits should be consistent – with each element of the local circuit calculated on the rated capacity of each link. Therefore, HIE considers that Option 1 allows the treatment of this anticipatory investment to align closely with the charging signals that are seen by other generators – particularly offshore. Local circuit expansion factors are calculated on the basis of the network export capacity and security factor.

It is clear from the facts presented in the consultation that the network export capacity from the system node at Dundonnell to Beaully is 900MW, with a security factor of 1 (as it is a single circuit design). Many offshore generators with single circuit connections have rated circuit capacities above the sum of the entry point capacity for the generators that are served by these links. This extra capacity due to oversizing results in an element of local circuit investment that is not targeted at the offshore generators through the local tariff element. Nor is the incremental investment cost drawn out and treated separately to the remainder of the asset investment as is proposed in Option 2. The circuit tariff is calculated on the basis of the network export capacity and the circuit security factor.

**Question 2: Do you believe that such treatment of anticipatory investment should be more explicit within Section 14 of the CUSC?**

HIE supports the publication of guidelines from National Grid regarding the treatment of anticipatory investment within the use of system charging structure.

**Question 3: Do you have any other thoughts or comments relating to the treatment of anticipatory investment either in the calculation of the local circuit tariff for the Western Isles link or more broadly in the TNUoS charging methodology?**

*Investment risk reflected in charging arrangements*

The generators currently contracted on the Western Isles are exposed to significant risk – placing security against the construction of the new HVDC link. It would be discriminatory to target the full investment cost (even the investment cost net the incremental) through use of system charges to this tranche of generators. This would discriminate between the current set of contracted generators with future generators that have the advantage of the anticipatory investment which not only lowers the overall local circuit tariffs (due to the reduced incremental cost compared to the installation of two separate circuits) but also the planning and consenting risk and timeframe. Therefore, in order to avoid anti-competitive treatment of these groups of generators, the charging of the shared assets (onshore cable circuit) should not vary depending on the connection of further entry capacity.

I hope you find these comments useful and look forward to viewing your response to the open letter in due course.

Yours sincerely



Gavin MacKay  
Highlands and Islands Enterprise