

Minister for Energy, Enterprise and Tourism
Fergus Ewing MSP

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15 APR 2013



Rt Hon Edward Davey MP
Secretary of State
Department of Energy and Climate Change
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London
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LEGACY 2014
XX COMMONWEALTH GAMES
SCOTLAND

12 April 2013

Dear Ed,

As you will know, the Scottish Government is committed to doing everything it can to ensure that the Scottish islands at the centre of some of Europe's finest renewable energy resources are able to realise their potential. I am very pleased that you share my enthusiasm and commitment to taking forward the work of the intergovernmental group we have established on Scottish Island Renewables.

It concerns me greatly that the potential deployment of the proposed 450 MW Western Isles sub-sea cable now apparently hangs in the balance with investment decisions required imminently if the project is to go ahead as planned.

Therefore I am writing to invite the key representatives from SSE, Ofgem, National Grid and DECC to meet and discuss how together we can resolve the challenges which are holding back the commitment to invest in this project. I believe there is great urgency in having such a meeting before the end of the month and would be grateful if your officials could please contact _____ in the Energy and Climate Change Directorate via _____ or _____ to indicate your availability in April.

Your continuing support to solve this issue is appreciated

FERGUS EWING



**Department
of Energy &
Climate Change**

Fergus Ewing MSP
Minister for Energy, Enterprise and Tourism
The Scottish Government
St Andrew's House
Regent Road
Edinburgh
EH1 3DG

The Rt Hon Edward Davey MP
Secretary of State

Department of Energy & Climate Change
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Our ref: PO2013/04544/VD

Dear Fergus,

9 April 2013

Thank you for your letter dated 5 March, about the Scottish Islands Renewables Project.

I recognise the potential for renewable energy in the Scottish Islands and am keen to unlock that potential where it makes sense to do so. Working to achieve this, the UK and Scottish governments have jointly supported the Scottish Islands Renewables project to examine the commercial and economic case for Scottish island renewables and the potential barriers to development and faster deployment. The intergovernmental steering group set up to advise this work has had a key role and I am pleased to see a strong spirit of cooperation between Westminster and Scottish governments, with the local communities, to work together to find a solution.

The project is making good progress and evidence gathering sessions have been held on each of the island groups, meeting developers and community leaders. The work of the intergovernmental steering group was always planned to run in parallel with a number of other activities and commercial decisions, and we continue to work closely with stakeholders and are meeting all of the relevant parties to assess the impact of the decision. It is important not to pre-empt the outcome of the analysis, which we have jointly funded. The analysts' report should be complete in April with the steering group due to report back to us some weeks later. I look forward to receiving and sharing the group's views. It will be for the UK Government, working with the Scottish Government, to take this forward to determine the final policy response.

EDWARD DAVEY

Minister for Energy, Enterprise and Tourism
Fergus Ewing MSP



Rt Hon Edward Davey MP
Secretary of State
Department of Energy & Climate Change
3 Whitehall Place
London
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5 March 2013

Fergus Ewing

I am writing ahead of your visit to Scotland on 18th March to highlight the challenges facing renewable development in the Highlands and Islands of Scotland, and in particular in each of Scotland's main island groups.

I understand a Ministerial Bi-lateral is being arranged to discuss how to progress an EU wide 2030 decarbonisation framework. But I am also keen we take the opportunity to discuss the increasing importance of ensuring the Intergovernmental Scottish Islands Renewables Steering Group of the UK and Scottish Governments finds a solution to the problems of high transmission charges, and the other barriers to delivering the renewable energy potential of the Scottish islands.

I welcome that you share my concerns about the speed of progress of renewable projects on the Islands. I also now welcome that the UK and Scottish Government are working in partnership with Highlands and Islands Enterprise, Scottish and Southern Energy, Orkney Island Council, the Shetlands Council and the Comhairle Nan Eilean Siar to assess the barriers to renewable deployment. The study phase of the project is well underway and developer discussions on each of the islands have now taken place. I am looking forward to seeing the study outcomes and to developing actions to tackle the challenges of delivering renewable energy from some of the areas of best resource in both Scotland and the UK.

But I have become increasingly concerned about the significant challenges and on-going uncertainty facing developers in the islands. This has been exacerbated by a number of recent developments in the Scottish and Southern Energy network area. In the currently highly challenging financial, investment and regulatory environment, you will have seen a number of grid development and improvement projects now facing delay and re-orientation. I am concerned these could impact on delivery of essential and much needed sub-sea cable connections to the Orkneys and the Shetland Islands.

I am particularly concerned that the business case for the Western Isles cable project is again being delayed due to on-going discussions around developer commitment. It is becoming increasingly clear that the outcomes of the work of the Intergovernmental Group on Island Renewables will be a key determinant in determining the timescale for delivery of the Western Isles cable project.

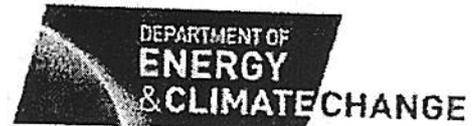
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This again emphasises the importance of the work of the Intergovernmental Group on Island Renewables. My island colleagues and I are clear that the Group must deliver practical, effective and clear outcomes to mitigate the barriers to deployment facing renewable energy developers on the Scottish Islands. We must do all we can to ensure the cable projects to the Western Isles, Shetland and the Orkneys can proceed quickly and effectively. I look forward to a more detailed discussion on this at the forthcoming Ministerial Bilateral.

I am copying this letter to the Convenors of the Comhairle Nan Eilean Siar, the Shetlands Islands Council and the Orkney Islands Council. I am also copying it to Alistair Carmichael MP, Angus MacNeil MP and to Tavish Scott MSP, Liam McArthur MSP and Alasdair Allan MSP.

FERGUS EWING



John Hayes MP
Minister of State

Department of Energy & Climate Change
3 Whitehall Place
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Our ref: PO/2012/14384/SS

Fergus Ewing MSP
The Scottish Government
St Andrew's House
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21 September 2012

Dear Fergus,

Thank you so much for your letter dated 7 September and your kind message of congratulations following my appointment as Minister of State for the Department of Energy and Climate Change.

I am delighted to be joining the department at such a crucial time delivering secure, affordable energy for all. I am looking forward to working with you on these challenges. I look forward to working together on a range of issues over the coming months.

You raise the concerns of stakeholders surrounding the operating costs of renewable generators on the Scottish Islands and in particular the impact of transmission charges on the development of renewable generation. I am aware of the issues and understand the disappointment of stakeholders when the scheduled visit by Charles Hendry to Stornoway on 10 September, to talk through the issues, was cancelled following the recent reshuffle.

I can reassure you that I will be continuing to look at the issues for the Scottish Islands and in particular my officials are in the process of gathering current evidence to determine whether additional support is needed for renewable generation on the Scottish Islands. The task is not straight forward as the economics of projects vary greatly by location within the Islands as well as by size and technology. It is entirely possible that the case for any additional support will vary accordingly.

It is vital that the needs case is clear before we commit to head down a particular path – we will need to ensure that we can get cross Government support for any potential measures as well as acting within EU state aid rules. It may be that a joint working group along the lines you suggest is a good way ahead, testing this evidence and assessing where there may be a case for additional support, but I do need to take some time to consider the merits of your suggestion to avoid raising unrealistic expectations.

If a working group does look to be a useful route, we will need to ensure that there are agreed terms of reference from the outset and be clear that any group could not be a decision making body.

At this stage it is important that we continue to work together to deliver the best solution both for the Scottish Islands and the Great British consumer. I will ensure my officials continue to work with yours to this end. You also will be aware that the Secretary of State is visiting Scotland in early October when further discussions on the Scottish Islands will take place.

Yours sincerely,

JOHN HAYES

Minister for Energy, Enterprise and Tourism
Fergus Ewing MSP



John Hayes MP
Minister of State
Department of Energy and Climate Change
3 Whitehall Place
LONDON
SW1A 2AW



7 September 2012

Dear John

I would like to first offer my congratulations on your appointment, and am looking forward to working with you to achieve the shared ambitions of our two Governments in the arena of energy. There are many areas on which we can work profitably together and I look very much forward to meeting you at the earliest possible opportunity to discuss the range of challenges that we currently face.

One topic which I must raise with you today relates to a matter about which I recently wrote to your predecessor. I am concerned to hear that the costs of an HVDC link to the Western Isles have now risen to £550 million, compared with an original estimate of £360 million. Renewable energy developments in the Western Isles and other Scottish Island groups with similar planned links are very likely to discourage if, as is suspected, Transmission Network Use of System charges rise above £100/kW with this news. I understand that the charges may rise to well over this level. This compares with a proposed mainland level of circa ten pounds.

I was disappointed by the outcomes produced by Ofgem's Project Transmit on transmission charging for islands, which makes access charges six or seven times higher than on the Scottish mainland. The current deliberations of those findings by the Connection and Use of System Code panel are uncertain to lead to any improvement that will relieve the excessively high charges. I strongly believe these charges, combined with rising costs have a perverse impact, disadvantaging and deterring investment in areas with the greatest potential for renewable energy generation.

My predecessor, Jim Mather, first wrote to Charles Hendry in October 2010 on the matter of island charging and I believe that the time for positive action is now upon us. I proposed to Charles Hendry that we now need to go further than the group developed out of the recent Marine Energy Programme Board (MEPB) meeting Greg Barker recently attended in Orkney, and that a specific group be established to examine all the issues of costs, with the Scottish and UK Governments taking a clear lead in driving this matter forward.

The group should be a standing, rather than short-term proposal, and comprising the Scottish and UK Governments, together with Island Council representatives. Involvement and engagement with island generators will also be critical, and we will need to ensure their views are taken into consideration, perhaps asking the MEPB-led group to act as an industry-led counterpart. This would be a real demonstration of the good working relationships of the two governments, a reaffirmation of our commitment to do our best for the islands, and consistent with our joint ambitions for renewable energy development.

I hope to be able to welcome you to Scotland in the very near future, and again wish you well in your new appointment. It would be useful to have the chance for an early telephone discussion about these matters.

I am not entirely clear as to how the responsibilities within DECC will be allocated, but if it is the case that Ed Davey is to deal with the renewable issues, then of course I would very much like to have the opportunity to discuss these matters with him.

Yours sincerely

FERGUS EWING

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Minister for Energy, Enterprise and Tourism
Fergus Ewing MSP

- 3 SEP 2012



Charles Hendry MP
Minister of State
Department of Energy and Climate Change
3 Whitehall Place
LONDON
SW1A 2AW

DELIVERING
A GAMES LEGACY FOR SCOTLAND

30th August 2012

Dear Charles,

WESTERN ISLES LINK

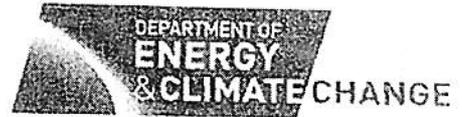
I am writing to you to express my concern regarding the continuing rising costs of this link, and the jeopardy in which developments in this important area of renewable resource are now being placed. My officials have been contacted by SHETL and have been informally told that given project cost increases they now anticipate TNUoS charges may rise above £100/kW. At this stage, developers in the Western Isles have not been informed, but you should be aware this news is likely to emerge prior to your visit to Stornoway on the 10 September.

My predecessor, Jim Mather, first wrote to you in October 2010 on this matter and I believe that the time for positive action is now upon us. I therefore propose that we now need to go further than the group developed out of the recent Marine Energy Programme Board (MEPB) meeting Greg Barker attended in Orkney, and that a specific group be established to examine all the issues of costs, with the Scottish and UK Governments taking a clear lead in driving this matter forward.

The group should be a standing, rather than short-term proposal, and comprising the Scottish and UK Governments, together with Island Council representatives. Involvement and engagement with island generators will also be critical, and we will need to ensure their views are taken into consideration, perhaps asking the MEPB-led group to act as an industry-led counterpart. This would be a real demonstration of the good working relationships of the two governments, a reaffirmation of our commitment to do our best for the islands, and consistent with our joint ambitions for renewable energy development.

Yours sincerely,

FERGUS EWING



Charles Hendry MP

Minister of State

Department of Energy & Climate Change

3 Whitehall Place

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Fergus Ewing Esq MSP
Minister for Energy, Enterprise and Tourism
Scottish Government
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16 April 2012

Dear Fergus,

Thank you for your letter of 22nd March concerning Ofgem's review of the transmission charging regime through Project TransmiT. You raise concerns relating to the treatment of the Scottish Islands within this review.

I should start by welcoming the fact that you and I both support in principle Ofgem's recommendation of developing changes to the transmission charging regime based on the Improved Investment Cost-Related Pricing (ICRP) approach in the Project TransmiT consultation. If Ofgem does conclude that changes should be made on this basis, there will be a significant shift from the status quo.

Your concerns about the treatment of the Scottish Islands focus on whether Ofgem has already concluded that Island charging will not be addressed through Project TransmiT. I can only reiterate what I said at our meeting on 20th March. Ofgem have assured my officials, both before our meeting and subsequently, that the proposals put in by representatives of developers of renewable generation on the Scottish Islands are being fully considered under Project TransmiT. I was clear in my response to Ofgem's consultation on Project TransmiT that I attach importance to ensuring the Islands are treated fairly.

Your letter also pointed to the results of analysis presented by Highlands and Islands Enterprise on the impact of transmission charges on Islands' generators and consumers. This was discussed when my officials and Chris Nicholson, Special Advisor to the DECC Secretary of State, met with representatives of the Scottish Islands on 11th April.

The meetings concluded that because Ofgem is likely to make a decision on the outcome of Project TransmiT on 19th April, and we know that this analysis is being considered as part of that process, we should now wait to see what that outcome is.

As you know, once Ofgem have published a response, it will be for the Connection and Use of System Code (CUSC) industry group to develop the detail of any changes proposed, including for the Scottish Islands.

I am copying this letter to Alistair Buchanan, Chief Executive of Ofgem.

Yours sincerely

CHARLES HENDRY

Minister for Energy, Enterprise and Tourism
Fergus Ewing MSP



Charles Hendry MP
Minister of State for Energy
Department of Energy and Climate Change
3 Whitehall
London
SW1A



22^d March 2012

Dear Charles,

As you know, the issue of transmission charging has been contentious in Scotland for some time, and we have therefore been following the work of Ofgem's Project TransmiT very closely indeed.

We welcomed Ofgem's consultation document of 22 December, which is a step in the right direction, particularly the proposed changes to the current Investment Cost-Related Pricing (ICRP) system that would see renewable generators charged according to output rather than capacity. We are also pleased that the retention of the status quo, which effectively penalised generation in the areas of highest renewables resource, is no longer an option under serious consideration.

However, we are seriously concerned about Ofgem's reluctance to deliver a workable solution through Project TransmiT for the main Scottish island groups. As the First Minister said in his response to the consultation, transmission problems require transmission solutions. It is vital that Project TransmiT delivers an enduring and effective transmission charging for the Western Isles, the Orkney Isles and Shetland. It is an admission of regulatory failure, bordering on an abrogation of its regulatory responsibilities, for Ofgem to leave the charging inequities facing the Islands to be dealt with by a Section 185 cap, or argue that these should be addressed through enhanced subsidies for island generation.

On a recent visit to Orkney, senior Ofgem officials working on Project TransmiT revealed that, not only will Island charging not be addressed through TransmiT, but the projected lowering of the charges set out in the consultation document for the north of Scotland may not occur due to a lack of conventional, thermal generation nearby to share the transmission assets. Ofgem has been careful throughout to describe a move to output-based charging as merely a change to a more accurate charge, but the fact is that the remit of Project TransmiT is to ensure a timely move to a low carbon energy sector. To achieve the more balanced low carbon energy

generation mix that Great Britain requires, renewable deployment needs to be accelerated. Scotland has the finest renewable resources in Great Britain, and the Islands have some of the finest in Scotland. The Islands are also at the forefront of the development of wave and tidal energy in the UK, and the signal sent out to developers and investors by disproportionately high Island charges risks blunting Government efforts to encourage this development. The Redpoint modelling that underpins Project TransmiT has clearly shown transmission charging as a key determinant in decisions on project development and where to locate, and the failure of the Western Isles link has proved that the current transmission charging regime has held back renewable deployment. It is obvious, then, that Scottish charges must be lowered to facilitate the move to a low carbon energy mix.

It is an unfortunate feature of the way that energy is regulated in this country that Ofgem takes an extremely narrow view when it makes its decisions. Ofgem's unwillingness to consider the cost of generation is understandable, if not logical, but you will be all too aware that those of us concerned with energy policy and the switch to a low carbon generation mix have a weighty responsibility to ensure that the lowest cost technologies are delivered first - and your Department agrees; DECC's consultation document on the review of RO banding states that 'if a technology costs less than 2 ROCs we should maximise deployment of it.'

According to the modelling we have seen, UK consumers will potentially be over £3bn better off over the 20 year life of 1GW of Island wind compared with an identical amount of a technology attracting 2 ROCs - ie offshore wind. This strongly supports the case for encouraging Island generation, and this can be easily done by addressing high transmission charges through Project TransmiT. These figures can be found in an annex to this letter; they present a compelling argument for addressing Island charging.

We look forward to hearing your thoughts on this matter. A copy of this letter will be sent to Alistair Buchanan, Chief Executive of Ofgem, for consideration as part of the Project TransmiT process.

Regards

Fergus Ewing

Stephen Hagan
Leader, Orkney Islands Council

Angus Campbell
Leader, Comhairle nan Eilean Siar

Josie Simpson
Leader, Shetland Islands Council

Annex

Cost of Connecting the Islands

There is over 1GW of onshore wind proposed in the Scottish Islands subject to establishing a lower TNUoS charge than current proposals. The table below shows a simple calculation of the total ROC subsidy 1GW of a 2 ROC technology will attract compared to an identical amount of Island wind at only 1 ROC.

Table 1: Marginal Additional Cost of 2 ROC Generation vs. Onshore Island Wind (1 ROC)¹

	Load Factor	ROCs	Anticipated ROC Value	20 Year Project Life RO Subsidy
1GW 2 ROC Generation	40%	2	£36.00	£6,987,200,000
1GW Onshore island Wind (1 ROC)	40%	1	£45.00	£3,153,800,000
Public saving over 20 yrs 1 vs. 2 ROCs				£3,181,800,000

The table shows that **UK consumers will potentially be over £3bn better off over the 20 year life of 1GW of Island wind compared with an identical amount of a technology attracting 2 ROCs** with an identical load factor. This is the basis of what we believe is a compelling argument to find a solution to connecting the Scottish Islands beyond the current proposals.

The table below calculates the total cost of all three proposed Island links by applying National Grid's standard onshore charging methodology to the capital costs of the links published by SHETL in their business plan and used by Redpoint in their modelling for Ofgem. This provides a 100% cost reflective annuitised charge. No onshore expansion factors have been applied.

Table 2: Total Cost of Island Links

Assumptions	
Capital Cost of Island Links (total cost of connecting Western and Northern Isles from Redpoint modelling)	£975,000,000
Asset Life	50 yrs
Rate of return	6.25%
Annuity Factor	0.066
Overhead	1.8%
Annual Cost Recovery	£65,500,300
Cost recovery over 20 yrs	£1,289,158,300
Cost recovery over asset life of 50 yrs	£3,210,000,300

¹ ROC values based on 2010 figures. Load factors consistent with island wind and offshore wind.

The total, 100% cost reflective local circuit cost is almost exactly the same as the potential consumer saving outlined in table 1 above. This illustrates that even in a highest cost scenario, the additional marginal cost of connecting 1GW of onshore Island wind with a zero local circuit tariff compared with an identical level of a 2 ROC technology, is virtually nil.

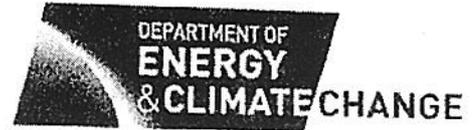
The table below calculates that total potential consumer savings over 20 years between the projects outlined in table 1. It shows that by spreading 50% of the cost of the island links across all generation and demand, the UK consumer would be around £2.5bn better off over the 20 year life of 1GW of Island wind vs. a 2 ROC technology with an identical load factor.

Table 3: Total Consumer Savings

	Anticipated cost of Island links over 20 years - 50% socialised
20/50ths of annuitised capital cost	£2,220,000,000
1 ROC 20 year subsidy + grid sharing	£2,220,000,000
2 ROC 20 year subsidy	£4,440,000,000
Total Public Saving (1 ROC 20 year subsidy + grid sharing - 2 ROC 20 year subsidy)	£4,440,000,000

DECC's consultation document on the review of RO banding highlights in bold (p.11) that 'if a technology costs less than 2 ROCs we should maximise deployment of it.' This was reinforced by the Chief Secretary to the Treasury recently when he called for further expansion of wind power.

Our view is that solely on the basis of affordability and the realisation of targets at the lowest overall cost; there is a clear obligation to develop an enduring solution to connecting the Scottish Islands.



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ps.charles.hendry@decc.qsi.gov.uk

Our ref: INV2011/24784/IM

Dear Fergus,

22 December 2011

Thank you for your letter dated 12 December, inviting me to the discussion on Project TransmiT that is being organised by the Scottish Council for Development and Industry on 13th January.

Unfortunately I will not be able to attend the meeting in person.

I would welcome any feedback from the meeting, particularly on attendees' views on the impact of the proposed changes to the charging regime on generators in Scotland, including the Highlands and Islands. Ensuring we have an effective and fair approach to transmission charging is important if we are able to meet our energy generation needs going forward.

As you will be aware, Ofgem has now published its initial thoughts on future transmission charging options. As part of its consultation on its proposals, it will need to consider the impact on all sectors and regions in full. This meeting will provide a useful forum for discussion that can feed in to Ofgem's process and I am sure you will encourage all interested parties to respond.

I also welcome the constructive way we are able to work together as we consider these complex and difficult issues.

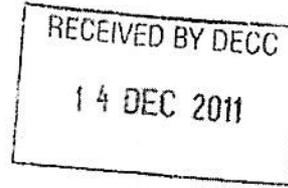
I am very sorry I cannot be with you

Yours sincerely

CHARLES HENDRY

→ copy by email pls

Minister for Energy, Enterprise and Tourism
Fergus Ewing MSP



Charles Hendry MP
Minister of State
Department of Energy and Climate Change
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DELIVERING
A GAMES LEGACY FOR SCOTLAND

12th December 2011

Dear Charles

It was good to see you at the Energy Council last month, and I am delighted that we are finding ways of working so effectively together, as illustrated by our joint working on the Marine Energy Position Paper.

I am writing to invite you to a Chatham House rules discussion that the Scottish Council for Development and Industry (SCDI) is organising for the Scottish Government on the emerging outcomes from Project TransmiT, Ofgem's review of transmission charging. I think we can both agree it is important that all parts of our electricity regulatory and support frameworks are aligned to support our mutual renewable energy and low carbon targets. We have shared and mutual interests in the outcomes of the review of transmission charging.

The Scottish Government has been engaged with Project TransmiT from the very beginning, and we have asked SCDI to organise this discussion on the emerging outcomes from the final stages of the Ofgem review. As you will know, I am particularly concerned to ensure Project TransmiT delivers solutions both for Scotland and for the Western and Northern Isles in particular.

The session will be held in Inverness on 13 January 2012, and SCDI are inviting members of the Gas and Electricity Markets Authority, developers, transmission owners and local governments. The emphasis will be very much on constructively discussing the options that will accelerate delivery of the renewable energy potential of the Highlands and Islands.

I hope you will agree that this will be an opportunity for us, and our governments, to continue working together, and I look forward to welcoming you to Inverness, capital of the Highlands.

Fergus Ewing

Fergus Ewing



Charles Hendry MP

Minister of State

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Our ref: MC2010/08280/JG

Jim Mather Esq MSP
Minister for Enterprise, Energy and Tourism
Scottish Parliament, T4.07
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Dear Jim,

18 November 2010

Thank you for your letter dated 1 October about electricity transmission charges in the Outer Hebrides. I apologise for the lengthy delay in replying.

I have seen a lot of recent correspondence about the prospects for renewable projects on the Scottish Islands in the light of forecast transmission charges, and the related issue about Scottish Hydro Electric Transmission Limited (SHETL)'s financing of the transmission link, and the impact they have on the developers of renewable projects there.

Wind energy will play a vital role in meeting our 2020 renewable energy target, and I am keen that we give new wind projects our full support. Facilitating low carbon generation is one of the key objectives of Ofgem's Project TransmiT which is reviewing the transmission charging arrangements. I do recognise that there are real concerns about the level of forecast transmission charges in the Scottish Islands. Clearly, the only way to address these concerns in the long-term is to make sure that the right transmission charging regime is in place to meet the challenges of renewable generation throughout Scotland. We need a transmission charging regime that facilitates the move to low carbon generation and continues to provide security of supply. It is therefore vital that all interested parties play a full part in Ofgem's review, Project TransmiT.

My hope is that Project TransmiT will deliver charging arrangements that enable the renewable projects we need to go ahead. However, my Department will be looking at the case for a scheme to adjust transmission charges under section 185 of the Energy Act 2004 in parallel with Project TransmiT. Officials have already been in contact with a number of interested stakeholders and will be meeting with a group including Highlands and Islands Enterprise and other representatives from the islands on 18 November to discuss how to take forward the work on section 185. It is vital that should the post-TransmiT charging regime mean there is a case for a section 185 scheme for the Scottish Islands, Government is in a position to act quickly and consult on a scheme as required by the legislation.

We know that this – along with Project Transmit – will take longer than is needed to resolve the immediate issue concerning the postponement of the SHETL link, and I regret that there is no alternative short-term solution. I should be clear that decisions on the financing of the link and allocation of associated risks are for the Gas and Electricity Markets Authority in line with their statutory duties. My Department has no locus to intervene in the issue and will not underwrite the cost of the SHETL work. I understand that SHETL have been in discussion with Ofgem about securing sufficient developer commitment to enable the link to go ahead.

I would like to stress that postponement of the SHETL link does not represent in any way a step back from the Government's commitment to deliver the necessary low carbon and renewable generation required to meet our renewable energy targets and security of supply needs. Clearly this move is disappointing for the immediate prospects of renewable projects on the Western Isles. I do believe that there is a hugely important role for such projects to play in meeting our long-term renewable targets, but risks and costs need to be fully taken into account when deciding upon the associated network investment. Any decisions we make about funding networks must of course take into account the potential impact on bill-payers, including the fuel poor.

Finally, I should like to stress that whilst it wasn't possible to send a DECC official to the developers forum in Stornoway on 5 November, I can reassure you that officials had already been in contact with a number of interested stakeholders. They will be meeting with a group including Highlands and Islands Enterprise and other representatives from the islands on 18 November to hear their views and discuss how to take forward the work on section 185.

Please be assured that I will continue to take
a close interest in this critical issue.

Yours sincerely,

CHARLES HENDRY

Minister for Enterprise, Energy and Tourism
Jim Mather MSP



Charles Hendry MP
Minister of State
Department of Energy and Climate Change
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1st October 2010

Dear Charles,

I am writing to you following your address to the Scottish Low Carbon Investment Conference on 29 September. Your contribution added significantly to the conference and highlighted the very many areas where our Governments are working closely together to deliver our low carbon future.

In particular, I welcomed your pledge to review DECC's options under Section 185 of the Energy Act 2004 in respect to transmission charges now being faced by developers in the Western Isles. This section gives the Secretary of State the power to adjust transmission charges for renewable electricity generators in a specified area of the GB network. The power can be exercised if renewable development in that area is likely to be deterred or hindered by the level of transmission charges that would otherwise apply. As you will be aware, this is clearly and acutely the case in respect of transmission charging for the Western Isles. It is increasingly becoming clear that renewable energy developers in the Western Isles are finding their projects are becoming uneconomic because of the scale of the use of system charges that are result from the existing locational charging approach, and are now being exacerbated by the very necessary, but significant upgrade of the grid connection to the Islands from the Scottish mainland.

This situation perfectly encapsulates the arguments for change to the transmission charging system in the UK. As you know, the Scottish Government will work with Ofgem in the wider transmission charging review, announced in Project TransmiT on 22 September. We look forward to fundamental and lasting change to the current locational charging regime which, as is now becoming increasingly clear, is working against both our Governments' strategic objectives for renewable energy and low carbon targets.

I therefore wish to let you know that I strongly support a transmission charging cap to the Western Isles to address this local issue ahead of fundamental changes to the charging regime through Project TransmiT. I would also ask that the application of your power under Section 185 be applied also to the Orkney and Shetland Isles, which face exactly the same issue.

Scottish Parliament, T4.07, Edinburgh EH99 1SP
www.scotland.gov.uk



I understand that the process necessary to apply an adjustment under Section 185 requires a process of consultation ahead of Parliamentary process to effect such a change. This will take some time. In the meantime I will be pressing Ofgem for maximum flexibility to allow the Western Isles – mainland interconnector cable to go ahead as quickly as possible, and without undue delay and project risk.

Western Isles Council will host a grid meeting that will include the council, Scottish Government, Ofgem and local developers forum in Stornoway on 5 November. I believe it is essential that DECC send representation to this meeting. It will be an ideal opportunity, ahead of your Section 185 process, to learn firsthand the impact the locational charging regime is having on renewable energy developments in the Western Isles and the importance of developing projects in the Islands and across Scotland.

Yours sincerely

Jim Mather