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12 March 2020

Dear Sir/Madam

**CMP 317/327: Removing Generator Residual and excluding assets required for connection**

Thank you for the opportunity to respond to the above consultation.

Highlands & Islands Enterprise (HIE) along with its local partners - the democratically elected local authorities covering the north of Scotland and the islands; Shetland Islands Council, Orkney Islands Council, Comhairle nan Eilean Siar, The Highland Council and Argyll & Bute Council – for many years have sought to influence grid regulatory matters to ensure the interests of our region are taken into account. HIE and its partners also work closely with Scottish Government in relation to grid regulation and investment.

The Highlands and the Islands off the north and west coast of Scotland represent a large geographical region. The region has a low population density with many pockets of population spread across areas that are often remote. The region is home to a large volume of renewable energy generation – from small scale, community developments to very large commercial installations – and has significant opportunity to further develop its renewable resource. The importance of securing investment in island interconnection to enable the renewables resource there to be developed cannot be underestimated from an economic and community sustainability perspective.

Our detailed comments and concerns about the Original proposal are set out in the attached.

Yours sincerely



Elaine Hanton

Head of Energy: Emerging Technologies and Regulation

In partnership with: -

Shetland Islands Council

Orkney Islands Council

Comhairle nan Eilean Siar

The Highland Council

Argyll & Bute Council

**1. Do you believe that CMP317/327 Original Proposals better facilitates the Applicable CUSC Objectives?**

We do not agree that the Original better facilitates the applicable CUSC objectives than the Baseline. The Original defines all local circuits and substation charges as physical assets required for connection, excluding the local circuit and local substation revenue, and in turn significantly increases Transmission Network Use of System (TNUoS) tariffs for generators. This would have a direct impact on renewable deployment in the Scottish Islands, and arguably to other onshore peripheral areas in the north of Scotland.

The Original proposal distorts competition between island generators and other generators which does not better facilitate the applicable CUSC Objectives. This presents a further challenge to island generators, particularly when these island groups already share significant challenges of high and difficult to predict connection costs and network charges.

We note that developing transmission links to islands is one of the Scottish Government's key aims and its vision for Electricity Networks by 2030 is to have substantially invested in new capacity for Scotland's electricity networks, including transmission links to island groups. We believe that the Original proposal is contradictory to these visions and runs contrary to the UK Government's policy of zero carbon by 2050 (2045 in Scotland).

In our view there is a need to compress the network to realise renewable potential in the north of Scotland, and to increase TNUoS competitiveness in the region. However, the Original proposal would be detrimental to the deployment of renewable projects in the Highlands and Islands region, and we therefore do not support it.

**1. Do you support the Proposed Implementation approach?**

HIE agree that the implementation approach must facilitate Targeted Charging Review (TCR) outcomes.

**2. Do you have any other comments?**

No comment.

**3. Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?**

We would like to see an alternative raised which ensures island links (as they are shared with several generator and demand) are part of the costs included in the cap.

**4. Definition of physical assets required for connection to the system.**

**a. Do you agree with the three options identified in Section 4, Paragraphs 2.1-2.4? If so, which do you prefer, and why?**

i) All Local Circuits and Substation Charges

We think this definition is too broad and should not be part of the exemption.

Up until now, when estimating TNUoS charges for the future under a 'TGR' sensitivity, the local offshore revenue from the calculations has been excluded, while based on this proposal, the local circuit and local substation revenue will be excluded.

This proposal will reduce the total revenue liable to the cap, which in turn will likely increase generator TNUoS tariffs. Ultimately, TNUoS charges are going to be higher in a region that is already constrained geographically and in which there already exists uncertainty for investors in terms of TNUoS (such as the treatment of HVDC links and the issues under zoning proposals - CMP324/325).

We also concur with the working groups direction set out in Section 2.2.6 of the consultation document, which highlights that some members considered that excluding charges for local circuits and substations in respect of island links, or other physical assets, used by demand, or other generators, was not compliant with the Limiting Regulation, and therefore, does not facilitate the CUSC Objective(d).

The islands are set to be important centres of renewable generation and physical infrastructure which elsewhere on the same UK grid would be treated in a different way. Therefore, we do not think that this proposal is fit for purpose.

ii) Generator Only Spur

Yes, we agree with this option if these are identified as for sole use of a generator to the Main Interconnected Transmission System (MITS).

iii) All local circuits and local substations except for pre-existing assets and shared assets.

Yes, we agree where such circuits are not shared by more than 1 generator and/or distribution.

**b. Is there another option you think should be considered, and why? Please provide evidence if possible.**

No comment.

**5. Amount targeted (G average)**

**a. Do you agree with the four options highlighted in section 4, paragraph 3 for where in the range set out by the Limiting Regulation should be targeted? If so, which do you prefer and why?**

HIE support the proposed target of £0/MWh (or close to £0/MWh) as this would reduce tariffs for the Highland and Island and help mitigate the impact of excluding connection charges from the calculation relevant to the Limiting Regulation.

**b. Is there another option you think should be considered and why? Please provide evidence if possible.**

No comment.

**6. Error Margin**

**a. Do you agree with the two options highlighted in section 4, paragraph 4 in regards to the inclusion of an error margin?**

We agree that there could be a concern with the status quo, in that the current methodology does not entirely remove the risk that the upper limit of the permitted range can be breached. This is because TNUoS charges are set ahead of the charging year based on forecast variables which can be difficult to accurately predict, and this creates a risk that average annual charges may exceed the upper limit. Therefore, we agree that an error margin of different sizes could be used either side of the range.

We do not agree that the reconciliation process, discussed in Section 5, is a vital component of any solution. Lessons should be learned from both CMP251 and CMP261.

The reconciliation process does not provide predictability for suppliers and generators. It is our view that the reconciliation process detracts from another charging objective, to *'inform existing and potential new entrants with accurate and stable cost messages'* because as an ex-post reconciliation process, this increases the duration of charging uncertainty, and hence, delays the publication of final tariffs by approximately 15 months. Under the existing methodology, final tariffs are published in January ahead of the start of the charging year. Under the reconciliation process, final tariffs would not be known until April after the end of the charging year. The reconciliation process is also likely to be complex and opaque to many new and smaller market entrants.

Further to above, it is HIE's view that establishing tariffs ex ante (status quo) rather than ex post provides greater charging certainty and stability.

**b. Is there another way to calculate the methodology for an Error margin? Please provide evidence if possible.**

No Comment.

**7. Implementation**

No Comment.

**8. Modules**

No comment.

**9. In section 4, paragraph 2.2.6 and 2.5.3, the workshop has identified its proposed approaches to island links. Do you agree or disagree with any of the suggested approaches? Please provide justification.**

The Working Group identified the proposed approaches to the Island Links.

1. That excluding the Charges for local circuits and substations in respect of Island Links, or other physical assets, used by demand or other generators, is not compliant with the Limiting Regulation (EU Cap) – **Agree.**
2. That **removing** Island Links from the Exclusion means (by 2024/25) table 2.5.3 a difference of 8% in averaged UK charges compared to table 2.5.2 where they are included in the Exclusion.

In the context of averaged charges within the UK grid system it could be argued that the Scottish Islands, and to a lesser extent peripheral onshore areas, would suffer a minor impact from the Original proposal. However, the modification in its Original form would further exacerbate the effects of the charging methodology which tends to remove these from taking part in the G/D split, whereas generators in the ‘wider’ (MITS) qualify.

**10. In section 4 paragraph 6, the workgroup has identified its consideration of the Reference Node.**

**a. Do you have any evidence that would support solutions which include the Reference Node?**

We understand that one of the solutions under the Electricity Network Access and Forward-Looking Charging Review (ENAP) is to change the reference node in the TNUoS transport model so that average wider system charges result in net zero revenue collected from generation allowing the demand locational charge to recover the cost of the system and thereby reducing the magnitude of the residual charges. The ENAP policy paper published on 9 March 2020 [1] sets out that the total revenue collected from generation would tend towards zero and in turn, will improve compliance with EU legislation and reduce the generation residual charge.

While the level of charges would change, i.e. moving the residual elements towards zero, the structure of the charges would remain the same, meaning that the impact on users in the north of Scotland would be low. However, there is limited information in ENAP’s working papers to make further comment at this time, but lessons could be learned from CMP284.

**b. Do you have any views on the Workgroup progressing this work alongside the Access and Forward Looking Charges SCR?**

This modification outlines moving a distributed reference node to a specific node as being a central reference point for the transport model, so in effect reverting back to the methodology that was in place before CMP213 ‘Project TransmiT’. However, under

ENAP, the change is to use a distributed generation reference node in place of the current distributed demand node.

We believe that this should be progressed in parallel with the SCR because the options suggested in CMP317/327 appear to be different to that being proposed under the ENAP.

## References

- [1] Office of Gas and Electricity Markets, "Electricity Network Access and Forward-Looking Charging Review: Open Letter on our shortlisted policy options", March 2020.

