

Judith Ross
Energy Systems Integration
Ofgem

Email: TCR@ofgem.gov.uk

08 May 2017

Dear Judith

TARGETED CHARGING REVIEW: A CONSULTATION

Thank you for providing the opportunity to respond to your “Targeted Charging Review: a consultation” (TCR) document published on 13 March 2017. Within this response letter we set out our position as Highlands and Islands Enterprise (HIE).

Highlands and Islands Enterprise (HIE) takes a distinctive approach to regional economic and social development – supporting the growth of communities as well as businesses and economic sectors. Operating across a largely rural area that covers half the land mass of Scotland and includes over 100 inhabited islands, the enterprise agency recognises that strong, sustainable communities are critical in supporting economic growth across the region, particularly in remote mainland and island areas. The Energy sector presents distinct opportunities throughout the region, with community energy developments already providing transformational economic and social benefits. The move towards a more decentralised, low carbon energy system presents further opportunities, and HIE therefore welcomes Ofgem’s wider considerations on the appropriate regulatory environment to support such a transition.

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, Highlands Council and Argyll & Bute Council, make representations to key participants on behalf of industry to influence the way in which regulation of the energy industry is managed in order to ensure the needs and interests of the Highlands and Islands are understood and taken into consideration. HIE also works closely with Scottish Government in relation to such regulatory matters.

Overview

We agree with Ofgem’s stated principles – the collection of the residual costs for operating the transmission and distribution networks needs to be done in a fair way and that users benefiting from the networks should contribute to the costs of running them.

We are also supportive of Ofgem’s desire to ensure that charging arrangements are fit for purpose going forward, particularly in the context of accelerating technological development and commercial innovation. The Smart, Flexible Energy System call for evidence in December 2016 was effective in articulating the clear changes and challenges that have occurred and continue to develop across the energy industry

Therefore, in this context, we welcome the opportunity to consider the wider issues of network access and charging arrangements to enable and facilitate an effective and fair regulatory regime going forward. However, we are concerned about the lack of visibility around the strategic context of the proposed TCR and believe it will be difficult to make reliable progress without the proper sight & cognisance of wider activity on access and charging. Based on the proposed scope outlined in the consultation document, we are unconvinced that the issues identified justify a significant code review as they do not span cross code. Instead the proposed scope of the TCR could be viewed as a collection of two discrete, code specific issues (triad avoidance behaviour, LV/HV distribution residual charges and storage charging arrangements).

We strongly support Ofgem's focus on total system flexibility (as actuated in the Smart, Flexible Energy System Call for Evidence, Dec 2016) – moving towards a decentralised energy system, with DNOs actively managing networks and procuring local balancing services. Therefore, the future charging arrangements must be fit for purpose, in this context.

We believe it could be premature to focus on narrow fixes to address perceived issues with particular market frameworks prior to understanding the vision for the whole energy system and the value to the consumer. We would also caution that any future changes to the charging regime must take full account of the reality of the current charging framework, including the investments made across the industry against a stable charging backdrop.

If the Authority decides to proceed with an SCR as set out in the consultation document, we urge that a prerequisite should be to **set out a clear strategy for addressing network access and charging arrangements going forward** and provide clear sight on the strategic context of proposed specific & targeted changes to the charging regime.

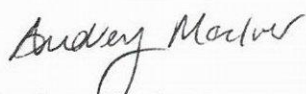
Fairness

Charging arrangements for storage. We agree with Ofgem that there is likely to be good consensus across industry about the fair treatment of storage and the charging issues (use of system, balancing and final consumption levies) can likely be managed through individual code modification processes rather than as part of lengthy code review process.

We agree that charging arrangements should encourage behaviour from system users which reduces overall system costs and minimise costs to the consumer. However, similar to the network businesses, generators and other network users have made investment decisions and have sunk costs, at risk. Once investments are made and plant has been installed, it is very difficult for users to reasonably respond to new charging arrangements. For many projects, particularly those currently under construction, the proposed changes are therefore simply punitive.

We hope you find this response helpful, but please don't hesitate to contact me should have any further queries.

Yours sincerely



Audrey MacIver
Head of Energy

In partnership with:-
Shetland Islands Council
Orkney Islands Council
Comhairle nan Eilean Siar
Highland Council
Argyll & Bute Council