Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

TCR@ofgem.gov.uk

24 September 2019

Dear Sir

Future Charging and Access programme – consultation on refined residual charging banding in the Targeted Charging Review

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 consistently sought to influence the direction of 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.

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. As you are aware, the region is home to a large volume of renewable energy generation – from small scale, community developments to very large commercial installations.

We remain hugely concerned that the TCR increases uncertainty and additional risk for both existing and future renewable generators across the Highlands and Islands. We describe this concern further below

We look forward to seeing the results of this further consultation in due course.

Yours sincerely

Elaine Hanton

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Supplementary renewables modelling

We recognise that Ofgem has taken on board previous industry responses and acknowledged the shortcomings associated with assuming *'new renewable deployment would be unaffected on the basis that CfD support payments would adjust to maintain the same level of new renewable capacity in the factual and counterfactual'.* We therefore welcome the updated analysis; however, we believe that the wider system modelling does not consider the full impact of TCR on renewable deployment going forward.

The challenges faced by the Highlands and Islands as a result of the TCR are multifaceted, and therefore, some of the most efficient onshore and community owned projects will be significantly burdened, in particular, by the wider zonal Transmission Network Use of System (TNUoS) tariffs that they will be liable for. We believe that Ofgem has not realised, to a reasonable extent, the detriment that the TCR will have on the renewable energy industry, which will in turn jeopardise future project development and will damage investor confidence in the sector. This is the case in the Highlands and Islands region, where the regulatory risk from the TCR emerges simultaneously with other barriers for new renewable developments, such as the need to reinforce the current network and proposed changes under Ofgem's Electricity and Network Access Project.

Accordingly, we have concerns about Frontier's wider system modelling. Firstly, we disagree with the assumed rate of renewables drop out and believe a 50% rate does not accurately reflect the impact the TCR could have on renewables. We question the link between this assumed drop out rate with the Future Energy Scenarios - Steady Progression and Community Renewables. The Steady Progression scenario is not aligned with both reserved/devolved legally binding carbon reduction targets, and the Community Renewables Scenario is not reflective of the UK's Government's policies towards onshore renewables – such as excluding pot 1 technologies, onshore wind and Solar PV, from competing for Contracts for Difference (CfD). To that end, we believe that the dropout rate is underestimated and that the Future Energy Scenarios used in the analysis are not accurate interpretations of future deployment.

Furthermore, the updated Frontier analysis assumes subsidy free onshore wind and solar is replaced by Offshore wind with a £1bn increase in system costs. While we believe that the Offshore wind industry will grow substantially before 2030, current budget restrictions for CfD are such that development rates may not be maintained.

In addition, removing Balancing Use of System (BSUoS) payments and requiring smaller embedded generators to pay BSUoS charges is another barrier to the deployment of onshore renewables. We therefore agree that onshore wind and solar will be affected by the reform of BSUoS changes, as assumed in the sensitivity analysis. However, we believe that the sensitivity analysis should consider both full and partial BSUoS reform.

Overall, while we realise that regulatory change has been identified as a priority for Ofgem, and that Ofgem has sought to take on board industry comments, we remain concerned that the direct consequences of the TCR have still not been fully recognised. It is a huge concern that investors will chose to leave the sector due to the level of uncertainty being created.

Refined residual charging proposals

The Highlands and Islands are already at the forefront of a dramatic transformation of the electricity system. To that end, the design of network charges needs to reflect how the decarbonisation of the network can be realised, and at the lowest cost to the consumer. However, we believe that the refined proposal still does not provide long-term certainty to the market and that the impact of the proposed changes under the TCR will delay the energy market transition set out under the UK Government's 'Smart Systems and Flexibility Plan'.