

## **Ofgem**

### **Access and forward-looking Charges Significant Code review: Consultation on Minded to positions**

#### **Scottish Islands Federation**

The Scottish Islands Federation (SIF) is a federation of community representative bodies from across Scotland's islands, a key stakeholder in the Scottish Government Islands Team and an active partner in the Clean Energy EU Islands programme through the European Small Islands Federation.

SIF recognises island renewable energy generation as integral to the challenges of island sustainability as well as the ability of the UK to contribute effectively to climate change solutions and deliver a meaningful green recovery.

We commend the inspiring portfolio of successful community led energy projects in the islands, often delivered against the odds, and would encourage Ofgem to speak with the people involved. This model offers enormous potential for our national effort to mitigate climate change as well as being transformational for communities.

Transmission costs in Scotland, particularly in the islands, are already the highest in the UK and SIF has strong concerns over increasing the charges further and in particular the low threshold of 1MW which would have a hugely detrimental impact on current and potential community led renewable energy generation.

There is also the issue of capacity, which was highlighted by the case of the Western Isles transmission link, when Ofgem appeared not to have understood the value of a higher capacity transmission cable to deal with the actual and potential local generation in the Western Isles and sought to impose an undersized cable.

Many of our members are involved in Community renewable generation and some lack a firm connection to the mainland grid. For example, constraint losses of up to 16% can apply in Shetland with no constraint compensation.

Our members are seriously concerned about impacts of future transmission charges which could be detrimental to the sustainability of local generation schemes and the communities which benefit from them. Lack of clarity on the level of charges creates uncertainties concerning the economic viability of small-scale community generation with potentially detrimental impacts for islands which are benefiting economically from community renewable generation. A reduction in renewable capacity would also affect the transition to net zero in Scotland and the UK generally.

We welcome this opportunity to provide feedback, fully support the submission from Community Energy Scotland (CES) and agree with the chair of CES in her response to this consultation that the current "TNUoS methodology is fundamentally unfit for the present era, and still incentivises centralised fossil-fuel generation in England and Wales, whilst penalising renewable generation in Scotland. This is entirely at odds with our net zero pathway. Hydro schemes, wind turbines, solar panels, tidal and wave turbines are all dependent on the local natural resources. Community-owned renewable energy projects tend to cluster in areas where those resources are found in abundance, and by their nature, cannot locate generation far distant from their communities. The priority for Ofgem in our view, should be to support and encourage a



fair, flexible and realistic plan for decarbonising the UK energy resources which includes and supports citizen-led community energy rather than working against it.”

**Connection boundary**

**Question 3a: Do you agree with our proposals to remove the contribution to reinforcement for demand connections and reduce it for generation? Do you think there are any arguments for going further for generation under the current DUoS arrangements? Please explain why.**

We agree with Community Energy Scotland that “removing the contribution to reinforcement for demand connections will reduce the upfront cost of installing low carbon technology in homes and community buildings, and remove key barriers to achieving our net zero targets. However, without a clear position on how reinforcement costs will be recovered we cannot start to understand the full impact this will have on communities. “

**Question 3b: What evidence do you have on the effectiveness of the current connection charging arrangements in being able to send a signal to users and what do you think will be the effect of our proposed changes? How does this vary between demand and generation connections?**

We agree with Community Energy Scotland that ” it is unrealistic to follow a methodology that assumes people will or can move house to reduce the cost of connecting to the grid to install low carbon technology in their homes or that natural resources are the same across the UK.

Our members’ energy generation is island based and therefore unable to locate their projects anywhere else. Hydro schemes, wind turbines, solar panels, tidal and wave turbines are all dependent on the islands’ local natural resources. “

We agree with Community Energy Scotland that “rewarding inefficient wind farms in the south with financial incentives while dis-incentivising wind farms in the north that are most efficient is unjustifiable, and indeed not clearly justified or reasoned in the consultation. Meeting our net zero targets will require a given amount of renewable electricity; this would require more generation and more connections if poorly sited relative to the available natural resource. Ultimately, this would require more resources, materials, investment, and therefore higher eventual costs for consumers. The whole system needs to be considered, not just one narrow aspect of consumer costs. “

Storage does not always have “significant locational flexibility” as in the Scottish islands, where batteries also perform many other roles, including potentially curtailment relief (often in areas of weak grids), grid forming (during outages), and other forms of grid support, in some cases as an alternative to reinforcement. This necessitates them being located in certain geographic areas and certain, often weak, parts of the system. As pointed out by Community Energy Scotland, where battery storage is actively helping reduce reinforcement costs for consumers, it would be a perverse signal to penalise them geographically.

**Question 3c: What are your views on the effectiveness of the current arrangements in facilitating the efficient development and investment in distribution networks? How might this change under our proposals where network companies are required to fund more of this work?**

Here we also agree with Community energy Scotland that “the current approach is entirely marginal and does not allow distribution network operators to plan for increased generation or demand. Subsea cables are replaced with like for like when increasing the capacity would be at marginal extra cost, which has a negative impact on generators that are curtailed without financial reimbursement, and therefore has a negative impact on the amount of renewable generation that is generated. “

**Question 3d: Do you agree whether the need to provide connection customers with certainty of price reduces the potential for capacity to be provided through other means such as flexibility procurement? How might this change under our proposals?**

We also agree with Community energy Scotland that “not providing certainty of price results in financing renewable generation being extremely difficult. Flexibility procurement is not yet well enough defined for banks to provide the necessary loans. Increased risk could result in increased cost of finance.”

**Question 3e: What are your views on whether we should retain the High Cost Cap? Is there a case for reviewing its interaction with the voltage rule if customers no longer contribute to reinforcement at the voltage level above the point of connection?**

No comments.

**Question 3f: What are your views on the recovery of the costs associated with transmission that are triggered by a distribution connection? Does this need to be considered alongside wider charging reforms or could a change be made independently?**

We agree with Community Energy Scotland that any “ change should not be made independently; it must be considered alongside a wider review of TNUoS, which is fundamentally flawed at present. Because 132kV is treated as transmission in Scotland, but not in England or Wales, the recovery of costs associated with transmission also unduly disadvantages Scottish generators; at an HV or EHV level, triggering a 132kV substation reinforcement lands Scottish generators with vast upfront costs – but no such cost signal in England or Wales. As the majority of Scottish GSPs are at or near full capacity, this is a significant barrier, which only impacts generators in part of the UK.”

**Question 3g: What are your views on the likelihood of inefficient investment under our proposals (e.g., an increase in project cancellations after some investment has been made)? Are there good arguments for further considering introducing liabilities and securities to mitigate this risk?**

Like Community Energy Scotland, we are very concerned that “existing security system relating to transmission reinforcements is already a ‘show-stopper’ barrier to community generators, who don’t have other assets or equity to place millions of pounds in security sums; extending this to distribution reinforcements would add further burdens and costs to address a problem which doesn’t exist.”

**Question 3h: What are your views on whether the interactions between our connection reforms and the ECCR must be resolved before we are able to implement our proposed reforms? How do you factor in the effects of the ECCR (if at all) into decision making, given the levels of uncertainty**

**around subsequent connectee(s)? What suggestions do you have to make our policy and the ECCRs work together most efficiently?**

No comments.

### **Access rights**

**Question 4a: Do you agree with our proposal to introduce better defined non-firm access choices at distribution? Do you have comments on their proposed design?**

We agree with Community Energy Scotland that leaving details of the ‘better defined non-firm access choices’ to the network operators whether to allow connections of this type creates an unequal locational playing field. “ This has to be changed to ensure that curtailment are dealt with accurately with work done as and when promised, to ensure an even and fair playing field throughout the UK that does not penalise the islands.

**Question 4b: Do you agree with our proposal to introduce new time-profiled access choices at distribution? Do you have any comments on their proposed design?**

No comment.

**Question 4c: Can you identify any benefits to shared access rights, which would indicate we have underestimated the likely take-up?**

At least one community hydro scheme was only able to get a connection (and therefore be built) as a result of a similar tripartite agreement between themselves, the DNO, and a neighbouring windfarm. Going forward, shared access rights should be normalised to enable more agreements of this nature to take place.

**Question 4d: Do you have any comment on our proposed choice about how to reflect access rights in charges (i.e. connection and/or distribution use of system charges)?**

No comment.

**Question 4e: Do you agree with our proposal to not prioritise the introduction of new transmission access choices as part of this Significant Code Review?**

No comments.

**Question 4f: Do you have views on how access rights should be standardised across DNOs?**

We agree with Community Energy Scotland that “access rights should be standardised and offered across DNOs for all connectees, and that DNOs should make these different access rights known to potential connectees. Differing standards help nobody, and cause confusion and delay. An open book approach on access rights and standardised approaches would evidence fairness, which would be of value to the consumer as well as the connectees.”

**Question 4g: Do you have any views on our proposed timescale of 1 April 2023 implementation?**

No comment.

### **TNUoS charges for SDG**

**Question 5a: Do you have any evidence that SDG does not contribute to flows in the same way as large generation and, therefore, should not be charged on a consistent basis?**

We agree with Community Energy Scotland that TNUoS charges built on erroneous assumptions are therefore not fit for purpose and that any change should not be made independently but be considered alongside a wider review of the fundamentally flawed TNUoS.

**Question 5b: Do you agree with our threshold for applying TNUoS generation charges of 1MW? If not, what would be a better threshold and why?**

Consultation with our members has led SIF to the conclusion that this threshold is too low, and unfairly penalises small community led renewable energy schemes.

10MW would be a more reasonable output threshold, as this could help to incentivise local generation schemes to help achieve net zero where they are more efficient. Scottish island communities may prefer to harness abundant renewable energy in our remote and fragile areas on a small scale to achieve local benefits, than trust to the sensitivities of commercial developers more concerned to optimise returns on strategic investment, but not necessarily where the resources are located..

**Question 5c: Do you have any evidence that distribution connected generation at a grid supply point has a different impact than directly connected generation?**

We agree with Community Energy Scotland that distribution connected generation at a grid supply point "absolutely, clearly and self-evidently has a different impact".

**Question 5d: Do you have a preference for one of our options for addressing the local charging distortion? If so, please indicate which option and provide your reasons. Are there any options we have missed?**

Feedback from our members is that all the options proposed would unfairly penalise small island community-based windfarm. They would like to see the threshold for option 1b raised to 10 MW.

**Question 5e: Do you support our position that we should consider transitional arrangements? If so, do you have a preferred option and evidence to support the benefits or risks associated with each option?**

We agree with Community Energy Scotland that "it is important to set out the strategic direction and to address the wider review of TNUoS in particular." We share their concerns that "imposing potentially very high TNUoS costs on existing small embedded generators, particularly low FiT rate or subsidy-free sites, will almost certainly lead some to bankruptcy, and will significantly harm investor confidence, just when we need to ramp-up deployment to meet our net zero commitments.."

The TNUoS methodology is currently penalising renewable generation in Scotland. This needs to change to incentivise renewable development in our islands as peripheral fragile areas considered uneconomic by large-scale operators, yet, entirely capable to assist with the UK transition to net-zero. Feedback from our members is that remote generators under 10MW, particularly in island communities, should be exempted from transmission charges.

**Question 5f: Have we identified all the options for administering TNUoS generation charges for SDG? If not, what options have we missed, and why would they be preferable to those we have identified? Can you provide any evidence regarding the implications of the different administrative options for your business?**

We do not feel that the options put forward take due account of potential for remote rural and island communities to be empowered as stakeholders in small scale renewable energy projects which not only contribute to net zero, but also generate local benefits to the local economy, to support community resilience.

**Question 5g: Are there any specific issues you think we need to consider, as part of our work on the future role of network charges? Why are these important to consider?**

Ofgem should consider exempting small scale (under 10MW) generators from transmission charges, in order to promote renewable development to support remote and island communities, and assist the UK transition to net zero.

It is important to consider the immediate and future implications for communities where renewables generate both economic benefit and employment. Economic and social regeneration through access to and promotion of island renewable generation is very much part of the National Islands Plan for Scotland, developed from the aims contained in the Islands (Scotland) Act 2019, and this should not be overlooked.

#### **General question**

**Do you have any other information relevant to the subject matter of this consultation that we should consider in developing our proposals?**

No comments.