

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.

Reducing the connection contribution for Distribution connected generators is an empty gesture if these generators are then to be levied with lifetime Transmission charges many times higher than the original connection contribution. This simply shifts the financial risk for Small Distributed Generation and, arguably, makes their schemes less viable. At the Planning stage, it is easier to raise finance for a single connection contribution than to ensure lifetime viability in the face of exorbitant Transmission charges and an unknown CfD value. To reverse the existing 'Connection Charge and no Transmission Charge' arrangement into a 'No Connection Charge and Transmission Charge' arrangement will effectively put a stop to community owned Renewable Energy schemes. It will deter small scale generators in the UK's area of best resource from developing Renewable Energy schemes just when the UK should be pulling out all stops to achieve Net Zero and deliver on the Prime Minister's 'Levelling Up' agenda.

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?

Existing connection charging arrangements send one signal to Renewable Energy developers: do not locate in the Western Isles. A Wind Farm developer in Lewis is currently faced with Transmission Charges five to seven times higher than a similarly sized Wind Farm developer just 50 miles away on the Scottish Mainland. This is because the Regulator considers island links to be high risk requiring full cost recovery from generators while the mainland UK network is funded by the UK consumer. Apart from the fact that this situation is manifestly unfair, this perception of high risk changes with the advent of ScotWind Offshore Wind schemes. There are three ScotWind Areas of Deployment around the Western Isles with a combined capacity of 5GW and no shortage of global developers willing to pay £100,000 per square kilometre just to secure a lease option, not a lease. This represents certainty of (unlimited) demand for island connections and we do not understand why OFGEM continues to ignore this potential.

Currently, commercial developers intending to export to Grid are challenged by Transmission charges to the extent that a Contract for Difference is insufficient to compensate. OFGEM's proposed changes will do little to improve the situation for these existing TNUoS paying developers. However, the proposed changes will have a devastating impact on existing and prospective Distribution connected generators below 10MW in the Western Isles in that they will face cost recovery for 158km of subsea and underground infrastructure between the Lewis GSP and National Grid MITS at Beaulieu, Highland. These schemes were designed for Distribution connection and function perfectly well in that mode. Their businesses cases will not survive the in-flight imposition of crippling Transmission charges.

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?

Network companies should be required to undertake anticipatory investment. Decades of reluctant and reactive investment has left us in the position where connection for ScotWind

Offshore Wind in the North region will not be available until the early 2030's and this is unacceptable given decarbonisation imperatives. Investment should be governed by the strategic delivery of Net Zero and not by the smallest impact on GB consumers. For example, the marginal cost of providing a 600MW Transmission Link to the Western Isles as opposed to the base case 400MW cable is just £120m and yet OFGEM blocks the uplift in capacity due to a miniscule impact on the GB consumer. With ScotWind Offshore Wind now in play, there is absolutely no prospect of stranded assets in the Scottish Islands Transmission network.

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?

Certainty of connection cost is essential for investment given the high level of uncertainty in the remaining development elements such as Planning costs and the final level of CfD support. If flexible procurement subsequently reduces connection costs, the differential can be reimbursed to the connecting generator. The current uncertainty around Transmission charging with Distribution connected island developers (current and prospective) not knowing whether or not they will face exorbitant TNUoS charges based on 158km of subsea and underground infrastructure between island GSP and mainland MITS is deterring investment and demonstrates how OFGEM delay and prevarication represents a huge missed opportunity for the delivery of Net Zero. OFGEM should announce, without delay, that embedded generation below 10MW will not have to pay Transmission charges.

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?

The High Cost Cap should be retained but reviewed at the first opportunity as it appears to be a blunt instrument.

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?

It is manifestly unfair that Distribution connected island generators should be expected to contribute to cost recovery for a £700m Transmission link which they would not have to use if the network was configured in a way that local generation supplies local demand. Also, no account is taken of the fact that a Distribution connected generator in the Western Isles is located 158km from MITS across land and sea and will be levied with Transmission charges reflecting that level of infrastructure while a North of Scotland Distribution connected generator may only have a few kilometres of overhead line connection to MITS to underwrite. At a time when the UK should be pulling out all stops to maximise renewable generation in the pursuit of Net Zero, this proposal by OFGEM is, effectively, the final nail in the coffin of community owned Renewables in the Scottish islands. The TNUoS regime must be fair to all generators, not just those located close to MITS. There is no good reason for delaying consideration of the Remote Island Wind situation as the uncertainty this creates is deterring investors and new market entrants at a time when all efforts should be made to achieve Net Zero.

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?

There will be no stranded assets on the Transmission network as the UK strives for Net Zero. Rapidly accelerating decarbonisation and growing demand for the electrification of heat and transport will mean that every viable generation opportunity will be taken up, particularly in high-yield areas like the Scottish Islands. For example, OFGEM has stalled authorisation of a 600MW Radial Connector for the Western Isles for years now on the basis that 200MW of capacity may become stranded, placing an unacceptable burden on the underwriting GB consumer. There are now two ScotWind generators very keen to connect a proportion of their generation to the Western Isles Transmission Link as they wait until 2032/33 for SSEN to develop the Dounreay connection option. Meanwhile SSEN continues to insist that all ScotWind North Region connections must go through a new hub at Dounreay, 180km distant from a ScotWind deployment that will be just 30km from the planned 600WM HVDC Converter Station at Stornoway. This is a separate farce that should be looked into by the Regulator.

Question 3h: What are your views on whether the interactions between our connection reforms and the ECCRs must be resolved before we are able to implement our proposed reforms? How do you factor in the effects of the ECCRs (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?

We expect that the ECCR provision will have to continue until a more appropriate approach is found.

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?

Non-firm connections are not ideal, particularly when the level of planned network company outages is far higher than was forecast in the original connection agreement. These prolonged outages can seriously impact on the economics of a small community-owned Wind Farm. Notwithstanding, non-firm connection should be there as an option for prospective generators so that they have access to a full and transparent range of connection options.

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?

Flexible access arrangements will benefit connecting generators and are supported.

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

In the Western Isles, we will soon see the emergence of alternative fuels requiring Grid connection for back-up. A range of developers could be involved and shared access rights should be available to lower costs, maximise collaboration and maximise resilience.

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)?

Shared access back-up connections will be at Distribution level and should not incur Transmission charges. Also, non-exporting generation which is meeting local demand through an organised Local Energy Economy, either through private wire or Green PPA, should not be charged Transmission charges.

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?

Transmission access choices should not be required for embedded local generation which is currently exporting through the Distribution network or is demonstrably supplying local

demand. Once the planned Local Energy Economy is established for the Western Isles, local embedded generators should be generating for local demand only, albeit drawing a Grid mix through a Green PPA on account of shortcomings in the local network. In addition to the suggested <10MW exemption for Transmission charging, any embedded generator who is supplying island demand exclusively should be exempted from Transmission charges, whatever the level of generation.

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

Access rights should be defined half hourly to align charging, markets and access rights.

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

No comment.

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?

Small Distributed Generation in the Scottish Islands should not face TNUoS because: a) these schemes were developed to connect to the Distribution network and have worked well under that arrangement, unlike the commercial Wind Farms which have been developed explicitly for export to England; and, b) Scottish Island TNUoS reflects the £700m+ cost of Radial Transmission Links installed for the sole benefit of commercial generators and, regrettably, OFGEM applies TNUoS to infrastructure between the GSP and MITS. In mainland UK, the GSP to MITS connection might be a few kilometres of overhead line but, for the Western Isles, it is £700m worth of cutting edge HVDC technology installed subsea and underground over a distance of 158km. It is manifestly unfair that a small social enterprise community generator should be expected to pay for this infrastructure. Rather than tinkering with an outdated, not-fit-for-purpose network, OFGEM should apply itself to creating a true Net Zero network where local generation is enabled to supply local demand in a closed Local Energy Economy rather than forcing community generators to export simply to meet hurdle rates of return for lenders and because the outdated local network is unable to synchronise intermittent generation with steady supply. That is not the fault of the community generator and they should not be penalised for it. Through this SCR, OFGEM is reinforcing an outdated network which is back-to-front; Renewable generation should be encouraged in the UK's area of best resource rather than penalising generators in these areas with punitive Transmission charges while awarding credits to generators in southern areas of poor resource.

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?

We do not believe that TNUoS should be applied to any Small Distributed Generation but, if OFGEM is to persist with this approach, the threshold for application of TNUoS should be set at 10MW minimum. This will lift the majority of community generators out of the discrimination promised by this SCR. The differentiator should be between generation designed for export and generation designed to serve local communities.

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

Small Distribution Generation in the Western Isles is forced to use the Transmission network because lenders require a hurdle rate of return only achievable through national PPA's and

because the outdated island network cannot synchronise with intermittent Renewable generation. The aspiration of these generators is to supply local electricity to meet local demand and, if it were their choice, their output would not be routed through the Grid Supply Point at all. This contrasts with the commercial developer who chooses to connect to the Grid Supply Point so that output can be exported to English markets. TNUoS should only be levied on generators who intend, as part of their Business Case, to use the Transmission network. OFGEM's proposals are not appropriate for the Scottish Islands and must be reconsidered. Delaying consideration of the Remote Island situation is not helpful as it simply means ongoing uncertainty for investors and aspiring community generators.

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?

Generators currently connected to the Distribution network should not be charged Transmission charges. Such generators evidently have no need to connect to the GSP and therefore have no intrinsic requirement to export.

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?

Grandfathering arrangements should be in place for existing generators, on the same timescale as their support mechanism (ROC or FiT). Grandfather rights for, say, 10 years from commissioning will expire within three years from now for most of our community generators and will be of negligible value in terms of providing adequate economic support for transitioning generators. OFGEM's position has grave implications for decarbonisation of the Highlands and Islands where the planned Local Energy Economy will rely so much on embedded, community-owned generation. Short term grandfathering will mean that these community schemes will be unable to repower for a future phase of generation. Their considerable decarbonisation potential will be lost and the island landscape will be strewn with stranded assets. This is surely not OFGEM's intention? One solution might be to introduce a minimum threshold of 10MW to lift embedded non-export generation out of this danger zone but the enduring solution would be to exempt non-exporting generators from TNUoS entirely.

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?

A generating threshold of 10MW should be introduced or, preferably, non-export generators should be exempted from TNUoS entirely. In an area where TNUoS is so prohibitive, temporary grandfathering will not provide adequate support. There is no scenario under which the imposition of TNUoS on non-exporting, Distribution connected generators in the Scottish Islands is affordable. This could change if MITS were to be located on island but, as things stand, it is entirely unreasonable for OFGEM to impose £700m cost recovery TNUoS on small community generators with no export aspirations.

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?

The Comhairle has consistently maintained that network charges in the Scottish Islands are inequitable and discriminatory but OFGEM fails to take any action. How can it be equitable for a Wind Farm developer in Lewis to be paying Transmission Charges five to seven times

higher than the developer of a similarly sized Wind Farm just 60 miles away on the North of Scotland mainland, due solely to the need for the island developer to connect to a radial Transmission link whose construction, unlike other elements of the UK network, is not supported by the bill payer? That is no fault of the generator. The Transmission Charge regime must be reviewed immediately so that further undermining of Net Zero delivery is avoided. The Contract for Difference regime was designed to support the overcost of generation deployment but it is failing the Scottish Islands where, for instance, SSE required a £250m internal company cross-subsidy to make its own, Viking, Wind Farm viable. Such internal benefits are not available to the Western Isles which exacerbates the inequity and makes wholesale review of an outdated Transmission Charge regime essential.

Question 7: Do you have any other information relevant to the subject matter of this consultation that we should consider in developing our proposals?

The Comhairle has long been concerned about OFGEM's focus on cost to the consumer at the expense of decarbonisation. The language in the SCR reinforces this concern with OFGEM stating that locational signals must be strengthened to disincentivise development a long way from demand which may require network reinforcement. The consequence of this outdated thinking is that generators in the UK's area of best renewable resource with wind load factors in excess of 60% are levied with additional charges while generators in the South of England where the load factor is circa 25% are awarded Transmission credits. We fail to see how Net Zero will ever be achieved while the Regulator maintains this mindset. The Regulator should also be incentivising geographically diverse generation to address climatic systems – when the North Sea is becalmed, the West of Scotland is usually windy and vice versa. Putting all the UK's eggs in one basket by insisting on generation close to demand threatens the nation's security of energy supply.

In conclusion, it is time OFGEM overhauled the UK's outdated electricity network with its focus on the main demand areas of central and southern England. Instead of penalising generators who wish to locate in high yield areas distant from these demand centres, OFGEM should be working with these generators to develop Local Energy Economies in these areas which will provide cost efficient electricity to remote areas and drive real regional growth.