

24 August 2021

Office of Gas and Electricity Markets  
10 South Colonnade,  
Canary Wharf,  
London, E14 4PU  
**By email only**

To whom it may concern,

**Access and Forward-looking Charges Significant Code Review: Consultation on Minded to Positions**

We welcome the opportunity to respond to your consultation on your minded to position with regard to the three key areas of distribution connection charging, the definition and choice of access rights and transmission charges for small distributed generators.

**Aquatera**

Established in 2000 and based in Orkney, Aquatera is an environmental consultancy which operates in local, UK and overseas markets, providing a wide range of services to both the renewable energy and oil and gas industries. Aquatera's core business is to provide fully integrated renewables support inclusive of strategic planning, public and stakeholder engagement and environmental assessment and surveying.

We have been extensively involved in the development of the marine renewable sector and have also worked with a number of onshore renewable energy developers in the UK. With regard to our onshore credentials, the majority of our work has focused on the development of onshore wind in remote areas such as the north of mainland Scotland, Orkney, Shetland and the Western Isles.

We have acted as both a developer and consultant in respect of these projects, so some of the changes proposed within your consultation would impact us as a potential user of the electricity network as well as the consultancy services we offer to other potential users.

**Response**

Aquatera is broadly supportive of the majority of the elements of the minded to position in respect of the proposed changes to the distribution connection charging and the definition and choice of access rights. However, there is one significant exception to our support. This is that we have serious concerns with regard to the transmission charges for small distributed generators. In particular, we note that Ofgem does not consider that the current charging arrangements for generators under 100MW are fit for purpose due to the growth in small distributed generation and are, therefore, minded to charge all users over 1MW

Transmission Network Use of System (TNUoS) charges. We would strongly object this proposed minded to position in relation to TNUoS on the following grounds:

- **The impact on existing generators over 1MW in capacity** – Generators who are based in remote and Islands locations who meet these criteria and subsequently become subject to TNUoS charges will be significantly and catastrophically impacted – a point acknowledged in your impact assessment. Rural, Island and remote locations such as the north of Scotland, Orkney, Shetland and the Western Isles are already subject to some of the highest TNUoS charges in the UK and bringing small distributed generation under this charging regime will put their economic viability in jeopardy. In short, this proposal has the potential to kill all present and future electricity production from small distributed generation in rural and Island locations. The north of Scotland is a net exporter of electricity but these proposals could see it become a net importer of less efficient electricity. Given the abundance of renewable resources in the region, this would be a tragedy and is completely contradictory to the decentralised and decarbonised energy system Ofgem seeks to create and the achievement of the Country's net zero ambition.
- **The impact on new generation over 1MW in capacity** – This has the potential to put an end to new small distributed generation projects in remote locations. These projects are essential to a decentralised and decarbonised energy system. We note that Ofgem recognises that the TNUoS reforms “could” have an impact on the outcomes of the next CfD auction but, in their present form, the reforms **will** have an impact on the auction. If remote generators now have to factor in the TNUoS charges into their bid price then the ability of onshore remote island wind, wave and tidal technologies will all be at an immediate disadvantage. The potential adverse impact on the CfD auction cannot be underplayed. We accept that this proposal will offer some certainty to generators, in terms of their bid price, but it will mean the auction is going to be skewed towards generators in the midlands and the south of England. This is discriminatory and the political fallout will be significant as it will effectively rule out any further viable project development of small distributed generation in the north of Scotland and island locations, destroying any hope of unlocking these areas huge opportunity to contribute to the achievement of net zero ambitions.
- **Implications for wave and tidal stream developers** – The UK Government is currently, through their Round 4 CfD auction consultation process, giving consideration to ‘ring-fencing’ some of the Pot 2 budget for these specific technologies. The UK Government recognises that the failure to ‘ring-fence’ budget will mean the most cost-effective technologies will benefit at the expense of more innovative technologies with significant long-term potential. If this minded to position is adopted, there is a very real possibility that the hard work stakeholders in the wave and tidal sectors have done in order to get the UK Government to recognise the long-term importance of their sectors was all in vain. These developments will be, by and large, in remote and Island locations which will mean they will be subject to some of the highest TNUoS charges in the UK. These sectors have faced adversity before and survived but their ability to deliver cost competitive energy will be severely hampered by this minded to position and put their UK projects at risk. This will, patently, have a direct impact on the developers but the UK faces the prospect of losing out on the indirect benefits (manufacturing, supply chain and O&M) associated with these emerging sectors, and also impacting on the route to net zero.
- **The impact on the “final needs case” for the 220MW Orkney transmission connection** – If new generation is not deemed financially viable, or indeed competitive

within the next CfD auction, due to the applicable TNUoS charges, then it is impossible to see how Orkney will be able to guarantee the additional 135MW of generation required to meet the conditions set out in their decision on the “final needs case”. This proposal would likely spell the end for a new transmission connection to Orkney and, as a result, the UK will lose access to an abundant and efficient green resource. Given the speed on which the UK needs to move along the path to net zero, it is disturbing that such a proposal is being entertained. When this is considered against the backdrop of the UK hosting COP26 in a matter of months, the message it sends out to wider stakeholders is, quite frankly, shambolic.

- **UK Energy Security** – A decentralised energy system will ensure that the UK’s reliance on the import of electricity from Europe is reduced. The impact this proposal will have on generators in the north of Scotland means that they may not be able to repower and will thus leave stranded assets. When the wind speeds are low in the midlands and southern England, then the UK will need to rely on the import of electricity. This reliance could, however, be offset if more was done to support generation in remote locations. This proposal seeks to do the exact opposite and, potentially, destroys the economic viability of renewable projects in the north of Scotland.

## **Recommendations**

We believe Ofgem should reconsider their minded to position in relation to TNUoS charges and, in doing so, consider the following recommendations:

1. Small (under 100MW) distributed generation should not be subject to TNUoS charges in their proposed form. The adverse impacts on generators in the north of Scotland and remote islands will be severe and jeopardise renewable generation in these areas.
2. All generators should pay the same level of TNUoS charges regardless of capacity, location or technology. This will ensure equal access to the electricity grid and generators will have a level playing field. It will, in turn, allow the UK to progress towards net zero at a much quicker rate as it will ensure viability of development resources across the whole of the UK.
3. Fully consider the impact the proposal may have on the next CfD auction and, in particular, the remote wind, wave and tidal sectors. As we have noted here, it is our view that the present proposal has the potential to kill all present and future electricity production from small distributed generation in rural and Island locations
4. If Ofgem are not minded to reconsider their position then we, in the strongest possible terms, recommend that ‘grandfathering’ and transitional procedures are put in place. We would, however, require further detail of these arrangements and the opportunity to consult further before we could take a definitive view.

The UK has declared a climate emergency and is to host the seminal global conference which will aim to address this at COP 26 later this year. We need to decarbonise the UK as quickly as possible and we need the regulatory and financial support to do so. The proposed minded-to position in respect of TNUoS charges, in our mind, will effectively rule out further development of small distributed generation in the North of Scotland and the Islands and can only be seen as a monumental step in the wrong direction on the pathway to net zero. It is essential that

OFGEM review this minded to position in relation to Transmission Charges, and instead establish a revised proposal which specifically addresses and enables the unique circumstances of the North or Scotland and the Islands.

We look forward to hearing from you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'I Johnstone', with a stylized flourish at the end.

**Ian Johnstone**  
**Director**  
**For and on behalf of Aquatera Ltd**

