



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

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To whom it may concern

HIE Response: Ofgem's CMP343 Consultation

Thank you for the opportunity to comment on these key proposals for the implementation of the Target Charging Review. Highlands and Islands Enterprise (HIE) is the economic and community development agency for the north and west of Scotland. We help build a prosperous, inclusive and sustainable economy across the Highlands and Islands, attracting more people to live, work, study, invest and visit.

We have previously expressed our concerns over the impact of charging reform on the development of renewable resources in the Highland and Islands of Scotland and we have some concerns regarding the impact of these proposals on consumers in Scotland relative to those in the rest of Great Britain. These concerns also apply to the development of hybrid renewables using the transmission system in the Highlands and Islands, which would be affected by Ofgem's proposals to floor forward looking charges.

HIE believes that co-location of storage/ flexibility of various forms, including green hydrogen, can help achieve balance at the point of grid connection. Hybrid renewables, in a more holistic sense, represents a way of achieving a degree of self-balance, using nature, given the negative correlation of wind and solar energy, which may be augmented by storage. HIE believes that hybrid renewables should be supported on mainland settings, and in particular; on remote island settings as part of solutions to enable a legacy of net zero for generations to come. We specifically value the potential multi-purpose contribution green hydrogen production from renewables can make to the electricity sector and to decarbonise heat and transport. This is particularly true in remote island settings across the Highlands and Islands region.

We would like to make the following comments regarding Ofgem's minded to decision to limit minimum forward looking charges to zero with a common residual for all transmission users.

- We are concerned that the decision will lead to higher charges on Scottish energy customers at all voltages than is justified by the benefits of simplicity, as illustrated by the differences between Ofgem's minded to decision and the charges modelled in WACMs 6-8.

- We are concerned that the floor could inhibit the development of hybrid renewables and resources such as green hydrogen making use of renewable resources in the Highlands and Islands, potentially supporting lower whole system costs.
- We support the delay in implementation to enable the impact of Access Reforms to be considered in the approach to recovery of residual costs.

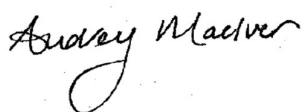
We do recognise the concerns highlighted over incentivising increased consumption at times of system peak created by negative forward-looking charges. In a smart energy system, incentives to consume energy at times that lower system costs will be needed through either forward looking tariffs or locationally specific 'flexibility' products. It is unclear how other flexibility services would reflect the incentives the proposed floor would provide, for example in supporting the development of local hybrid renewables.

We do not understand Ofgem's minded to decision that puts simplicity ahead of the impact on customer bills in regions where lower energy costs driven by proximity to low cost renewables might offset other higher costs inherent in remote areas. Ofgem should explain their reasoning further in their final decision, explaining where the benefits of simplicity rest and how these offset the compromises being made.

We also recognise that these implementation proposals will be affected by the decisions made in the coming year on transmission access charging. Ofgem should delay implementation until there is clarity on the forward-looking access charging regime and an appropriate set of charging that support smart energy use has been developed.

Our more detailed comments and responses to the specific questions can be found below. HIE would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely



Audrey Maclver
Direct of Energy and Low Carbon

HIE Detailed Comments

Our understanding of the analysis of the regional adjustment (WACMs 6,7,8) illustrates the combined impact of the residual and forward-looking charges.

The regional analysis demonstrates that a combination of a residual change and unrestricted forward charges results in higher user charges in the load centres in England. This intuitively reflects how the transmission system has developed over many years to transfer power from Scotland south into the rest of Great Britain, a function that has increased with the development of renewable energy.

The analysis reveals that the proposed methodology could result in the Highland and Islands being 4 times higher for domestic customers and 2-3 time higher for larger energy consumers than the locationally adjusted tariffs. Table 2 below from your consultation shows that the locational approach has little impact on the highest priced areas but a very significant one on the lowest.

Table 2: estimated TDR tariff impact of flooring options

TDR £/site/year		Flooring approach			
		Floor at 0	No Floor	Locational Adjustment	
		GB-wide		Lowest (All N. Scotland)	Highest (Various)
Domestic		27	30	6	30
LV No MIC	Band 1	12	13	2	13
	Band 2	65	71	18	72
	Band 3	156	171	47	172
	Band 4	488	535	179	534
LV MIC	Band 1	848	929	299	967
	Band 2	1,544	1,692	498	1,724
	Band 3	2,476	2,713	775	2,784
	Band 4	5,635	6,176	1,701	6,450
HV	Band 1	3,658	4,009	2,671	4,489
	Band 2	12,780	14,006	5,186	14,441
	Band 3	26,067	28,567	13,067	29,454
	Band 4	68,297	74,848	32,727	77,601
EHV	Band 1	30,398	33,314	23,714	31,442
	Band 2	156,057	171,026	86,815	166,873
	Band 3	328,651	360,175	142,584	357,715
	Band 4	817,126	895,504	330,754	893,097
Transmission	Single band	675,605	740,408	338,373	772,328
Unmetered	p/kWh	0.79	0.87	0.14	0.87

We are concerned that in the rejection of these on ground of simplicity the decision will lead to higher charges on Scottish energy users than is justified. We do not believe that Ofgem has sufficiently addressed the distributional impact on Highlands and Islands. Ofgem describes all approaches as being cost reflective so the benefits of simplicity must be shown to outweigh these differentials.

We also note Ofgem's analysis that a 'no floor' can increase the TDR to be recovered by £200m. We do not fully understand this as our implicit assumption was that the residual and forward looking pots

would be fixed and the charging regime would not transfer costs between the two pots (so negative forward looking charges in one area would lead to higher forward looking charges in another).

HIE Responses to Ofgem's Questions

Question 1: Do you agree with our assessment of the distributional impacts of the flooring approaches?

We note Ofgem's analysis that no floor increases the TDR to be recovered by £200m, but do not fully understand this as our implicit assumption was that the residual and forward looking pots should be fixed and the charging regime would not transfer costs between the two pots (so negative forward looking charges in one area would lead to higher forward looking charges in another).

Question 2: Do you agree that, of the flooring options presented, flooring at 0 best meets the TCR Principles and Applicable CUSC Charging Objectives?

We are not clear from this consultation that this best meets the TCR Principles, particularly that of fairness, because of the potential impact on Highlands and Islands customers demonstrated by the impact assessment for WACMs 6-8.

Question 3: Do you agree with our assessment of the distributional impacts of the banding approaches?

We have no specific comments on the banding approach.

Question 4: Do you agree that, of the banding options presented, four bands best meets the TCR Principles and Applicable CUSC Charging Objectives?

We have no specific comments on the banding approach.

Question 5: Do you consider that any of the options presented adequately addresses very small users (including those associated with mixed use sites)?

We have no specific comments.

Question 6: Do you agree with our minded-to decision to approve CMP343 WACM2?

We believe that further explanation and justification of the customer impacts of a floor compared to the locational adjustments is required if a floor to forward looking charges is to be implemented, as the analysis appears to indicate that costs to specific groups could be 3-4 times higher in regions like the Highlands and Islands under these proposals than under alternative, equally cost reflective options.

Question 7: Do you agree with on our minded-to decision that implementation should be delayed by a year, until April 2023?

We agree that the design and implementation should be aligned with the Access Reforms.

