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Networks – Distribution
Ofgem
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Dear Mr Cox

Structure of Electricity Distribution Charges – a consultation

Highlands and Islands Enterprise (HIE) is the Government's agency responsible for economic and social development across the northern half of Scotland. As I am sure you are aware, this is an area with substantial renewable energy resources and high levels of new generation activity. This activity includes large scale commercial on shore wind proposals but also considerable activity at the community scale where an increasing number of local communities are developing proposals to develop smaller scale renewable generation. The operation of the grid, at both transmission and distribution levels, is therefore of considerable interest to us.

HIE welcomes the proposals for re-structuring distribution charges. While in general the introduction of shallower connection charges is a positive move, as is greater harmonisation of charges across DNOs, we do recognise that for certain projects it may lead to higher connection charges. Nevertheless, we do recognise the wider benefits of moving to this system.

Specific comments on the areas raised in the consultation are provided below, and relate principally to matters relevant to SHEPD statements.

NHH charges

The consultation states that SHEPDt not charge for NHH generation, which, presumably may include micro-generation. To be more accurate, SHEPD actually state that it has not prioritised development of a charge for NHH generation. The prospect of a charge will inevitably delay opportunities for micro-generation until the situation is clarified.

Compatibility with trading rules

A low or zero charge for micro-generation is only helpful if micro-generation is feasible under the rules and costs of operating in the new BETTA regime. HIE would ask that charges are as far as possible compatible with other measures implemented to facilitate micro-generation. It would be helpful if the statements, as probably the first port of call for prospective generators, referred to other documents and trading rules. Establishing a business case for generation which properly takes account of all the costs and rules – metering, market settlement etc. – of the new regime is challenging for any generator, but will be a major barrier for micro-generation.

Reactive power

Any charges should be explicit, and if there are charges surely also there should be corresponding payments? Requirements should be compatible with the grid code.

Changes to agreed capacity

HIE agrees with Ofgem that a tie-in period of 15 years is long, and that the requirement is likely to act as a barrier. There is no corresponding offer to agree the charges for that period, and so a generator would be committing to pay costs of which it has no prior knowledge. HIE does appreciate the need for commitment by the generator, but agrees with Ofgem that a period similar to demand is appropriate.

Loss Adjustment Factors

In respect of generators, the SHEPD statement states that “Loss Adjustment Factors...may also be relevant”. It is not clear in the statements how LAFs will be applied, if at all, to generation. If they are applied to generation, will there be a corresponding alteration to their application to demand? Would this be retrospective and could generators get paid as well.

Worked Examples

HIE agrees with Ofgem that worked examples are very helpful.

Deferred Network Reinforcement

HIE considers that, where appropriate, deferred network reinforcement should be reflected in the charging structure. HIE does however recognise that this is a benefit which is difficult to recognise, and is not likely to be very relevant to the SSE situation.

High cost projects

The Ofgem consultation makes reference to high cost generation projects, the implication being that these are non-standard connections. The situation for high cost projects is not immediately clear from the statements, and should be clarified (and justified).

I hope you find these comments helpful.

Yours sincerely

Elaine Hanton
Head of Renewables