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09/10/2009

Dear Jenny

### **Response to the governance of charging methodologies (108/09)**

Highlands and Islands Enterprise (HIE) welcomes the opportunity to respond to the consultation on governance of charging methodologies (Ofgem 108/09). Transmission access and charging is considered highly important by HIE for the economic development of the Highlands and Islands of Scotland.

HIE is the Government's agency responsible for economic and community development across the northern half of Scotland. Along with its local partners who represent the democratically elected local authorities covering the north of Scotland (Shetland Islands Council, Orkney Islands Council, Comhairle Nan Eilean Siar, Highland Council, Moray Council and Argyll & Bute Council), HIE has taken a considerable interest in, and has responded to a number of consultations on issues affecting development, access, management and charging of grid infrastructure. We are also working closely with Scottish Government in relation to a wide range of regulatory issues and are supporting its efforts to challenge the barriers currently blocking renewables development across Scotland.

HIE and its partners are particularly interested in this consultation given the importance and impact on projects in the North of Scotland of being able to secure timely and cost effective transmission access.

As you may know we have longstanding concerns about the current TNUoS methodology. National Grid's monopoly over initiating changes to the transmission charging methodology has the obvious effect of blocking any proposals with which National Grid disagrees. We also feel that the current arrangement has wider implications for the quality of debate of transmission charging and the responsiveness of National Grid to the need for change.

#### **Scottish transmission charging proposals**

HIE has strongly supported the proposals put forward by the Scottish Government, Scottish Renewables, Scottish Power and Scottish and Southern Energy for a uniform wider access charge. We very much welcome National Grid's willingness to consult on these proposals, albeit we do not agree with all of their conclusions. We have some observations on these more recent events which we believe are relevant to decisions on charging governance:

- Whilst we and others have been making representations on TNUoS for a number of years, it was only the advent of a strong politically-backed effort that eventually persuaded National Grid to consult openly. Not all good proposals come with this level of backing. The methodologies should be open to all merit-worthy challenges.
- The consultation on the Scottish proposals was run and decided upon by National Grid. In doing so, it is probably fair to say that National Grid was not overly enthusiastic. National Grid is naturally inclined to defend TNUoS and there

is nothing wrong with this, but we would question whether it should also be the judge and jury where there is this inherent bias.

- National Grid's license objectives on charging do not encompass the sustainable development and European objectives highlighted by the Scottish proposals. In contrast, Ofgem has wider objectives which mean it has to place greater weight on these areas.

The last point on misaligned objectives proved to be a particular source of frustration during the deliberations on GB ECM 17. Ofgem specifically asked Scottish parties to provide evidence that TNUoS was compromising the economic viability of projects. HIE and others responded to this request and gathered evidence on some island-based projects.

In responding to this evidence, National Grid states in the conclusions of GBECM 17 that *"A number of parties pointed to the development of the Viking and Statkraft wind farms as evidence that locational charging is a barrier to renewable generation. National Grid accepts that the anticipated TNUoS tariffs for these projects are high in relation to the rest of the UK, but notes that this is due to their geographical remoteness rather than the fact that they are renewable projects."* Effectively National Grid seems to be saying that it is acceptable for costs to be prohibitively high in peripheral areas. HIE agrees that this is a feature of the existing locational charging model albeit a discriminatory one.

However, we would note that we were asked for this evidence, which naturally created the expectation that it was relevant. If the proposals had gone forward to Ofgem, would there have been a different outcome in light of Ofgem's wider objectives? HIE notes that the Renewables Directive refers to discrimination against renewables and to discrimination against projects in peripheral areas. We find it difficult to understand why this should not be relevant to National Grid, existing license objectives notwithstanding.

### **Governance options**

Unsurprisingly then, HIE is extremely supportive of Ofgem's proposals to open out the charging methodologies to constructive and meaningful challenge. We believe this would also serve to improve understanding of charging methodologies, because there would actually be some mileage in doing so.

Of the options put forward in the consultation, HIE supports Option 3, because this would bring a greater degree of independence to the assessment and development process. This, combined with changes to code administration and support for small players should provide a major improvement to the inclusiveness of the process.

We accept that Option 4 of creating a brand new code and modification process is likely to be time consuming and costly, and may even result in more fragmentation of the codes process than at present. However, as noted HIE remains concerned that the objectives against which charges are assessed are not aligned to Ofgem and Government's wider set of objectives. This issue would not be resolved by bringing transmission charging under the auspices of the Connection and Use of System Code (CUSC). As such we would support further changes that would better align all of the codes with wider sustainable development objectives and adherence to European legislation.

### **Cost Benefit Analysis**

In under taking an impact assessment on the proposals, Ofgem attributes the key benefits of the proposals to the ability of Ofgem to chose its most favoured proposals which it describes as *"more cost reflective tariffs [which] might enable network users to make better informed locational siting decisions, locating where there is more spare capacity available on the network, and thereby helping to prevent unnecessary investment and costs to consumers."*

The "might" here is quite key. Our arguments on the ability of renewable-resource dependent renewables to respond to certain locational signals are well versed. We also believe that tariff stability is absolutely essential. Notwithstanding these arguments, HIE would strongly urge Ofgem to widen its benefit criteria to include the long-term benefits of building new infrastructure to serve the future low carbon energy mix, and the costs of not doing so. We do not concur that the optimal solution will always be incremental change to the existing grid topology, which is what the existing locational tariffs pre-suppose.

We hope you find these comments useful and we look forward to viewing outcomes of this consultation in due course.

Yours Sincerely



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On behalf of a Highlands & Islands Partnership comprising:  
Shetland Islands Council  
Orkney Islands Council  
Comhairle nan Eilean Siar  
Highland Council  
Argyll & Bute Council  
Moray Council