

Hannah Nixon
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Ofgem

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Dear Hannah

Highlands and Islands response to 73/11 Project TransmiT: approach to electricity transmission charging work

Highlands and Islands Enterprise (HIE) is the Scottish Government's agency responsible for economic and community development across the northern half of Scotland and the islands. Renewable energy resources in HIE's area constitute the greatest concentration of potentially exploitable renewable energy resources in the UK and the region is well placed to contribute to UK and European carbon reduction and renewable electricity generation targets *if* key regulatory barriers can be effectively addressed to facilitate deployment of renewable technologies.

HIE along with its local partners (Shetland Islands Council, Orkney Islands Council, Comhairle nan Eilean Siar, Highland Council, Argyll & Bute Council and Moray Council) has been engaged in the regulatory arena for renewables for many years. This is because it has a significant bearing on the economics and deliverability (and hence the exploitable resource) of projects in our area. HIE responded to Ofgem's call for evidence on Project TransmiT, provided formal feedback on the academic reports and have provided you with further evidence at your request, specifically on the barriers to connection that high charges and user commitments create.

Ofgem's open letter is welcome and we agree with the need to focus on options that are practical and applicable to the GB market. On balance HIE concurs that a Significant Code Review (SCR) is the correct vehicle for taking forward proposals, although we have some reservations about the expediency of the process and would welcome further narrowing of options.

We agree that the European context is relevant, but we are concerned that Ofgem's role in, and views on, the development of a European market is not entirely visible. We are also concerned that proposed options are just a stepping stone to further reform – at the very least we believe that any reform should include a transition plan and measures to protect investments made under market conditions at that time. Ongoing uncertainty will impact negatively on investments and consumer costs.

We have elaborated on these points overleaf:

Shortlisted options

We support the decision to focus on the more practical academic proposals, noting that if the Strathclyde proposals for “ICREP” are taken forward they will need more work to fully understand how they will work and their impacts. Evidence suggests that some further socialisation of connection and use of system costs will be required in order to unlock the renewables potential of the Highlands and Islands and we have reservations about the ability of improved ICRP to deliver that. We look forward to viewing more detailed working from Ofgem on this in due course.

HIE notes that the other Locational Marginal Pricing (LMP) academic proposals encompass substantial reform of the wholesale market, the management of congestion and goes against the direction of travel for the UK electricity market. We agree with Ofgem’s decision that this is out of scope for a review of transmission charging but this does raise the question of why two of three academic groups focused on LMP. Clearer guidance for the academic parties at the outset of that process could have led to much more constructive/insightful discussion on an appropriate range of options.

Ofgem’s shortlisted options encompass a very broad range, from relatively minor developments and enhancements of ICRP to more fundamental reform such as changing the G:D split or some form of postal stamp charge. Each of these options also breakdown into a variety of sub-options with very different implications. Therefore whilst LMP has been put aside (but with the suggestion that it may come back under European developments), the remaining options do not suggest any substantive narrowing of solutions as a result of the evidence gathered to-date.

SCR

If all of these options are to be taken forward, HIE feels that, on balance, an SCR offers the best route for implementation as the existing governance process would not be suitable for parallel consideration of such a broad range of options. However, we would welcome a further narrowing down of options before committing to an SCR as the most appropriate way forward. We would also like to understand if the timing of the P229 zonal losses proposal is deliberately aligned to Project TransmiT?

It seems unlikely that industry views will converge on such a large spectrum of charging options, and so it would be useful to understand how Ofgem intends to manage the process so that it is productive. We feel quite strongly that consideration of grandfathering some charges in order to see out the life of existing plant would help the process enormously.

European 3rd package

Ofgem’s open letter refers to the European Third Package measures that could lead to some harmonised market operation rules. The letter acknowledges Ofgem’s role in shaping “*the direction of travel within Europe*” but goes on to say that Ofgem “*will continue to consider the consequences of European developments for the arrangements in Great Britain (GB) and whether or not these developments imply the need for reform of the GB market.*” If Ofgem has a role in shaping the European markets, then it by implication has a role in driving reform of the GB market through Europe.

We acknowledge that Ofgem communicates information on European developments, but we have some difficulty finding published material on Ofgem’s own policy input into the development of framework guidelines and market rules. Would it be possible, for instance, for Ofgem to publish its formal input into the development of European guidelines on capacity allocation and congestion management?

The Highlands and Islands of Scotland are home to some of the UK's best renewable resources but lie on the periphery of the country. We think it is important that GB connection and charging arrangements arrived at through Project TransmiT over the summer resonate with arrangements that will allow the UK (as a peripheral country with high renewables resource) to integrate with Europe.

Uncertainty

It is disheartening that further "*wider*" reform, consequential to European developments, hangs over the process. Industry had an expectation that Project TransmiT would improve transmission charging, in so doing releasing further investment and resolving current uncertainty. Ofgem has publicly acknowledged the hiatus caused by Project TransmiT (and EMR), implying that its conclusion would bring this to an end.

As noted above the direction of travel of European developments is shaped by Ofgem's contributions and views. It is therefore in a position to set out more clearly its views on transmission access and charging in the European context, and consider any ongoing transition as part of the SCR. Again, grandfathering existing access and charging arrangements for the lifetime of existing investments is something that should be considered.

I hope you find these comments useful. If I can provide any clarification or any further information, please don't hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C Davidson', with a long horizontal flourish extending to the right.

Calum Davidson
Director - Energy and Low Carbon
Highlands and Islands Enterprise

In conjunction with the democratically elected local authorities representing the Highlands and Islands of Scotland:

Shetland Islands Council
Orkney Islands Council
Comhairle nan Eilean Siar
Highland Council
Argyll & Bute Council
Moray Council