HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd's nan Eilean

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Dear Vanja

CMP 192 IMPACT ASSESSMENT- Response by Highlands and Islands Enterprise

Many thanks for the opportunity to respond to the CMP 192 impact assessment. 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.

HIE along with its local partners: the democratically elected local authorities covering the North of Scotland and the Islands: Shetland Islands Council, Orkney Islands Council, Comhairle nan Eilean Siar, Highland Council and Argyll & Bute Council have, for a number of years, been active in the regulatory arena because of the significant bearing regulation has on the economics and deliverability of projects in the Highlands and Islands of Scotland.

Home to some of Europe's richest renewable resources, the Highlands and Islands are well placed to contribute UK carbon reduction targets and the regulatory objective of security of supply by facilitating the deployment of a geographically dispersed, range of technologies; if key regulatory barriers can be effectively addressed to facilitate deployment of renewable technologies.

HIE has been closely following CMP 192 as well as the Project TransmiT SCR on transmission charging. We have previously commended the CMP 192 Working Group for its airing and discussion of views and progress in developing a user commitment methodology and have backed the same proposal which attracted the vast majority of support from industry which was labelled an "island-friendly" Alternative which included 50:50 sharing of local liabilities. However, we feel that the informal title underplays the benefits the Alternative would bring, not just to a varied, historic demand base but to the entire low carbon generation sector where access to global finance is increasingly competitive and high local connection costs become the norm (due to inability to respond to locational signals).

Whilst disappointed that the 50:50 sharing of local liabilities Alternative is not being taken forward, we are generally supportive of CMP 192, especially the attention to risk profiles rather than pure indemnity. In particular the move to align security provision with the riskiness of a project should improve competition from independent generators that do not have the credit ratings of utilities. Some of the numbers are still challenging for small independent generators, but nonetheless it is welcome.

However, most of the detailed work in assessing and sharing liabilities amongst users is around the wider works. Local works remain, more or less, focused on indemnifying the grid companies for cumulative spend up to the point of connection. This is despite the fact that the local works definition encompasses extensive sharing and integration of assets.

Whilst disappointed that Ofgem is minded not to approve a 50:50 local sharing Alternative, particularly as this was the overwhelming industry favourite, we do agree with the Regulator that underwriting of local works merits further work. Specifically this should look at sharing of liabilities and the specific re-use factors. We expand on these points below.

50:50 sharing
HIE would like to emphasise that 50:50 sharing maintains the status quo for underwriting liabilities. This is because, as the impact assessment acknowledges, IGUC is premised on 50:50 sharing of all liabilities, local and wider.

It is very difficult to understand why Ofgem was content with 50:50 sharing under IGUC, but now considers it unjustified under CMP 192. It is quite frustrating that this has never been adequately explained, and creates regulatory uncertainty on what principles are being applied and when. If Ofgem intends to reject 50:50 sharing it would be very helpful to have an explanation as to why there has been this policy shift.

Fixed, non-refundable local works
HIE has some major concerns about the fixed, non-refundable option for local works under CMP 192. There will need to be some oversight around how total costs are estimated and fixed. The fixed and non-refundable approach could recover more than the stranded asset cost. This could occur because of over-estimates of the total cost, as well as the fact that National Grid will be able to re-allocate (and charge) assets to other users whilst still collecting their cost in cancellation charges.

It therefore doesn't feel quite right to peg the fixed amount at the total cost. Fixed and non-refundable was easier to understand (and choose) where there was 50:50 sharing. Our concern is that fixed underwriting will not be palatable for these reasons under CMP 192, and this will effectively remove the substantive benefits that IGUC provided in terms of predictable underwriting.

Asset re-use factor
Ofgem has undertaken some assessment of the impact of moving over to CMP 192, saying that "*Liabilities will be slightly larger for generators located far from the main transmission system than they could secure under IGUC*". Table 5 on page 36 shows a minor difference in liability for an onshore island 150km from the nearest MITS.

These numbers appear to assume a generic re-use factor of around 30%, which remains right up to connection. In reality, the methodology has a specific re-use factor for local assets, which is specific both to the assets, and to a point in time (e.g. assets may be re-deployable whilst in the factory but less so once installed).

If re-use is minimal, CMP 192 will have a very significant business impact on island projects, compared to IGUC. To take a real example, the Western Isles link is around 150km in length, with a cost of £430M. Under IGUM, total liability will peak at 6xTNUoS. At around £97/kW, this is an underwriting amount of £0.58M/MW.

Under CMP192, wider liability is estimated at around £0.021M/MW. For a link capability of 450MW the local 100% liability is £0.95M.MW. This gives a total maximum liability of £0.97M/MW. This is over one and a half times more than IGUC.

Thus the re-use factor is absolutely critical to the business impact of moving over to CMP 192. For pre-construction work re-use may be pretty low as spend is around routeing and consenting a particular asset. For equipment ordering and down-payment it may be deemed to be very high, and this would certainly benefit early-stage projects and might even be an improvement on IGUC. However if equipment is sized for specific circumstances there may be no re-usability at all. The re-usability of assets once manufactured and installed will need some thought on a project-by-project basis. It is important now to understand how this assessment will take place. We would welcome further dialogue on these issues to bring some clarity.

Timescales

HIE notes that any new work will likely need to be undertaken as a new CUSC Modification. However we feel that much of the work on local assets is around clarification on how CMP 192 will work on a specific, local basis and could be undertaken as part of the detailed implementation of CMP 192 e.g. work on the local asset re-use factor and clarifying how prices are fixed under the local works fixed, non-refundable option. We would very much welcome this approach as it would bring timely clarification and help industry decide whether a new Modification is desirable

I hope you find these comments useful. Please don't hesitate to contact me to discuss any of the points raised in this response. I look forward to viewing outcomes in due course.

Yours Sincerely,

Gavin MacKay
Senior Development Manager, Strategic Projects & Energy Policy
Highlands and Islands Enterprise

In partnership with:
Shetland Islands Council
Orkney Islands Council
Comhairle nan Eilean Siar
Highland Council
Argyll & Bute Council