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Ofgem

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Dear Simon

Response to consultation on charging methodology for higher voltage distributed generation: 115/12

Highlands and Islands Enterprise (HIE) is the Scottish Government's agency responsible for economic and community development across the Northern and West 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.

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 make representations to key participants on behalf of industry to influence the way in which grid construction is triggered, underwritten then accessed and charged for in the region. We are working closely with Scottish Government in relation to a wide range of regulatory issues and are supporting its efforts to challenge barriers currently blocking renewables development across Scotland.

Projects connecting at Extra-High-Voltage (EHV), effectively 33kV, make up a good proportion of renewable projects in HIE's area. Ofgem's consultation bears this out in number of connections covered by the methodology in SHEPD's area – namely 168, three times more than the second highest number of connections.

HIE and our partners submitted a detailed response to Ofgem's 2011 consultation on the FCP/LRIC version of the EDCM methodology, on which we had some significant concerns. We are very pleased to see that a number of these concerns have been taken on board, with some revisions to the methodology.

Specifically, Ofgem appears to have recognised that the relatively deep connection charges generators pay at distribution already provides a strong locational signal, and that future-looking locational signals after a generator has located and connected can be counterproductive. To the extent that these problems will be lessened by the removal of the FCP / LRIC element of the charge, HIE is supportive of Ofgem's current proposals. Our remaining comments focus on generator's ability to forecast the charges, and on credits for intermittent generation.

Forecasting charges – model availability

Our previous response majored on the problems created by not having access to the underlying EDCM modelling capability. This problem seems to remain, being driven by data confidentiality. We note that National Grid provides a public access version of its TNUoS model and find it difficult to understand why the same cannot be achieved for the EDCM. Notwithstanding this, we note that FCP / LRIC is no longer a part of the

EDCM export charges and so it may well be possible to release an export charging model that does not encounter the same issues.

If users cannot forecast their own charges, it rather undermines the cost signalling the EDCM is designed to provide – unless the DNOs themselves agree to publish forecasts suitable for financial planning and project development.

Conditional Approval

Ofgem is proposing only to allow credits for intermittent generators should the relevant distribution planning standard afford some demand security credentials to intermittent generators. Ofgem doesn't however specify what this needs to look like, and it is our understanding that P 2/6 does already allow some reliance on intermittent generation when planning the network. Ofgem should clarify this with the DNOs before proceeding with any condition.

Notwithstanding any clarification; in order to provide confidence we feel that any such condition should be framed so as to:

- Make clear that where network planning does credit intermittent generation with providing some demand security, that this should be reflected in charges.
- Not be limited to P 2/6 – rather it should be broader to reflect all network planning considerations.
- Provide an incentive on DNOs to keep network planning, and hence charges, up-to-date. If charges are to be pinned to network planning statements then the statements themselves should not be allowed to stagnate. This could be achieved by a licence condition, with a date, to bring planning standards up-to-date with regards to capacity credit for intermittent generation – and keep under review thereafter.

Overall whilst we understand why Ofgem is attracted to linking charges to the standard, we are keen that this doesn't delay the right answer. Planning standards are not subject to the same open governance as charging and can suffer from inertia, especially around demand security issues.

The DNOs suggestion of linking credits to the diversity of generation in an area is a good proposal. Ofgem may wish to consider approving this as part of the EDCM methodology, but with a condition asking for the DNOs to show that this is properly reflected when planning and building distribution networks.

We hope you find these comments useful and if you require any further input please don't hesitate to ask.

Yours sincerely

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In partnership with:

Shetland Islands Council

Orkney Islands Council

Comhairle nan Eilean Siar

Highland Council

Argyll & Bute Council