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25 February 2015

Dear Olivia

HIE response to Ofgem open letter on whether the voltage rule should take precedence over the High Cost Cap for Distributed Generation connections

Highlands and Islands Enterprise (HIE) is the Scottish Government's agency responsible for economic and community development across the North and West 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, Argyll & Bute Council and Moray 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 acknowledge the view that the voltage rule would take precedence over the High Cost Cap were both rules to be triggered by a distributed generation connection. We welcome the clarification offered by Ofgem and support Ofgem's view.

This clarification will provide confidence to small generators that the costs of their connection will not extend beyond the immediate works required to connect their project. We also consider that this will support efficient investment as any costs associated with additional works will be borne directly by the District Network Operator (DNO).

We also note that this clarification is only applicable in instances where both rules are triggered, therefore any projects which are still triggering high-cost reinforcements in the immediate vicinity of the network will still be subject to the High Cost Cap. Generators will therefore have a clearer understanding of the level of reinforcement they have triggered as it will only be for works on the local network.

We agree that this policy clarification will help to ensure that a more equitable connection changing methodology is applied to all distribution customers. Nonetheless, we appreciate that the additional costs that aren't passed through to Distributed Generator (DG) as a result of this policy clarification will likely result in additional expenditure for DNOs – and the associated impact that this has on the revenue requirements and RIIO-ED1 revenue re-openers. Nonetheless, we believe that because of this redistribution of cost, this policy clarification will help to better incentivise DNOs to limit system reinforcement expenditure for DG customers.

DCUSA change proposal

For smaller generation projects, the connection charges applied under the High Cost Cap can be prohibitive. There are many examples where excessive connection costs (that result from the High Cost Cap being applied) make otherwise feasible projects, unviable. Limiting the scope of costs that generation projects are exposed to under the voltage rule will be helpful in many circumstances. However, HIE and its local authority partners are still concerned about the continued application of the High Cost Cap. In particular because these costs (paid by distribution generation customers for reinforcement investment over and above £200/kW) cannot be recovered at a later date if a second user utilises the assets, through second comer charges. We therefore would vigorously support a proposal from any of the DCUSA

Yours sincerely,



Gavin MacKay
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Highlands and Islands Enterprise

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