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24 June 2020

Dear Sir/Madam

Code Administrator Consultation CMP 324/325: Generation Zones and Rezoning

Thank you for the opportunity to respond to the above consultation.

Highlands & Islands Enterprise (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, The Highland Council and Argyll & Bute Council – for many years have sought to influence grid regulatory matters to ensure the interests of our region are taken into account. HIE and its partners also work closely with Scottish Government in relation to grid regulation and investment.

The Highlands and the Islands off the north and west coast of Scotland represent a large geographical region. The region has a low population density with many pockets of population spread across areas that are often remote. The region is home to a large volume of renewable energy generation – from small scale, community developments to very large commercial installations – and has significant opportunity to further develop its renewable resource.

The outcome of this consultation is of particular interest to us given the significant impact it will have on existing and future renewable generation projects in our area.

Our detailed comments are set out in the attached.

Yours sincerely



Elaine Hanton

Head of Energy: Emerging Technologies and Regulation

In partnership with: -

Shetland Islands Council

Orkney Islands Council

Comhairle nan Eilean Siar

The Highland Council

Argyll & Bute Council

1. Do you believe that the CMP324/5 Original solution, WACM 1, WACM2 or WACM3 better facilitates the Applicable CUSC Objectives?

HIE agrees that WACM 3, and the Original proposal, better facilitates the applicable CUSC objectives.

a) Effective competition - Positive

Aligning generation and demand zones better facilitates effective competition in the generation and supply of electricity, because it stabilises generation Transmission Network Use of System (TNUoS) tariffs in the north of Scotland (Annex 9), thereby removing a barrier to entry for renewable projects. There is significant potential for fluctuating TNUoS tariffs under the current methodology, and averaging across a larger area will improve stability and predictability of tariffs. Furthermore, in some locations, high use of system charges associated with small generation zones currently discourage new renewable generation and can ultimately jeopardise energy security and the potential to contribute to Scotland's (and the wider UK's) ambitious climate change mitigation targets.

Under current arrangements for lower voltage areas like Scotland, the unit costs of circuits are high, and therefore, a single generator connection would constitute a zone in itself. WACM 3 would avoid setting up charging zones in peripheral areas where there may only be one or two nodes, thus avoiding significant barriers to entry.

e) Efficiency in implementation and administration – Positive

In the main, anything that reduces complexity and introduces price stability and improved forecasting is positive for developers. Fixed zones will improve transparency and simplify the TNUoS tariff setting processes on a long-term basis. Furthermore, National Grid Electricity System Operator (NGESO) can provide more accurate 5 year forecasts of TNUoS tariffs without having to take account of the risk that the generation charging zones could substantially change.

On the contrary, WACM 1 inflates the range in line with RPI, and this would create zones containing as few as 1 node. It provides no long-term certainty around the number of zones, and therefore contradicts Ofgem's initial purpose in raising the modification – to reduce the number of charging zones. The 'RPI' zones would significantly increase TNUoS charges in the north of Scotland, which is already exposed to high connection costs and use of system charges, and we therefore do not support this solution.

In addition, the RPI solution (WACM 1) will break the Transport and Tariff model eventually, because as the number of zones increases it becomes less likely a connectivity map can be created. This solution would have a direct impact on renewable deployment in the Scottish Islands, and arguably to other onshore peripheral areas in the north of Scotland. This presents a further challenge to island generators, particularly when these island groups already share significant challenges of high and difficult to predict connection costs and network charges.

2. Do you support the proposed implementation approach?

We support the delayed implementation of the Original proposal until April 2023 – keeping the fixed (current) 27 zones until then. The delay to implementation would allow existing generators 2 years in which to plan ahead and for those in process of development to have more certainty.

WACM 3 also takes into account the disruption caused by COVID-19 restrictions in 2020 and gives generators more time to get ready for the changes in charges which, for some, may be significant.

The proposal is also in line with other recent CUSC modification proposals, which have also had a delayed implementation. Overall, the option in WACM3 to fix and use the current 27 zones in the interim allows a greater degree of stability prior to moving to the solution proposed in the Original.

3. Do you have any other comments?

Ultimately, the current methodology needs to be updated given that it was set down in 1992 when coal, gas and nuclear power stations were the only options and were encouraged (through negative TNUoS charging) to be located close to large urban and industrial complexes. HIE believes that WACM 3, and the Original proposal, allows greater predictability and stability going forward as more infrastructure is added, particularly in renewable rich areas in Northern and Western Scotland and the Scottish Islands.

HIE also believe that major changes to the charging methodology should lower barriers to entry for remote island wind and offer an opportunity for the development of less mature technologies, such as marine wave and tidal stream in the northern isles. We note that under WACM1, and using the projections supplied by National Grid Electricity System Operator (NGESO) in Annex 9, the resultant locational TNUoS for the islands would be excessive and, with a European cap on average generation costs, lead to significant residual adjustments. For many island projects, the TNUoS differential would significantly impact competitiveness, particularly in view of low Contracts for Difference (CfD) out-turn prices and short-term uncertainty in the European PPA market.

The immediate grid infrastructure planned to connect onshore areas in the next 5 years, such as the Scottish Islands, are part of the infrastructure required to connect generation to meet the 2050 commitment. If the costs for using this infrastructure under charging models proposed for 2024/25 were to be excessive, not only would new zero carbon generation not be built but economical viability of existing embedded generators in the north of Scotland and the Scottish Islands would be critically impacted. High or unsurmountable barriers to renewable generation are contradictory to the legal commitments of the UK and Scottish Governments Net Zero targets, and we therefore urge Ofgem to take these issues into account when making its decision.

As the economy recovers from Covid-19, it is imperative more than ever to unlock the renewable potential in the Highlands and Islands region, which can supply low-cost

renewable electricity to consumers in order to ensure that 'no one is left behind'. WACM 1 (RPI solution) would be detrimental to a 'green recovery'.

As a separate issue, HIE is aware that there is a new CUSC modification, CMP346 'Price Control Updates to Charging Parameters', which seeks to amend incorrect and misleading references to old charging parameters in Section 14 of the CUSC. HIE has identified a possible defect which should be raised both in CMP324/325 and CMP346, in that the CUSC clauses around the Boundary Sharing Factor (BSF) are outdated and need reviewed. Section 3.80 of the consultation document states that *'the sharing factor calculations in the current methodology would stay the same under the original solution'*. HIE notes that CUSC section 14.15.53 (on calculating boundary sharing factors) does not account for the three types of generation, only conventional and low carbon. The BSF equation should be aligned with the outcomes of CMP268 *'Recognition of sharing by Conventional Carbon plant of Not-Shared Year-Round circuits'* to account for intermittent generation. This could see a slight change in TNUoS charges and may impact on re-zoning.