

Lightsource Renewable Energy Limited



LIGHTSOURCE
SWITCHING ON SUNLIGHT

Contents

About Lightsource	2
Contact Details	3
Response	4
Conclusion	10

About Lightsource

Lightsource Renewable Energy Limited (**Lightsource**) is a company incorporated in England and Wales and is currently the leading solar photovoltaic (**PV**) energy generator in the UK and Europe, and one of the top ten largest solar PV energy generators globally.

Solar PV is set to deliver the best value for money among all energy sources — even fossil fuels. By 2025 it is predicted to be the cheapest energy source globally, and by 2050 it is expected to be the largest energy source globally^{1 2}. Beyond using proven, affordable and best quality solar PV technology to meet the UK's rising renewable energy demand, Lightsource is contributing to the UK's efforts to reduce its carbon footprint. Community engagement and respect for the natural environment are the cornerstones of Lightsource operations from project inception to project completion.

Since its establishment 4 years ago Lightsource has been a key player in the ground-mounted solar PV market. Also, and in response to the Department of Energy and Climate Change's (**DECC**) calls for an increase in the deployment of building-mounted commercial and industrial solar PV as set out in Solar PV Strategy (April 2014), Lightsource has developed a commercial and domestic rooftop division, which has so far assisted a number of organisations in reducing their operational costs by halving their electricity bills and increasing their competitiveness in the UK market.

In this document we have set out our response to the consultation questions raised by Ofgem in the consultation on *'Quicker and more efficient distribution connections'* published on 19 February 2015 (**Consultation**).

Lightsource welcomes the opportunity to respond to the Consultation. Should Ofgem require any further information or evidence, please contact us.

¹ F.-I. f. S. E. S. (ISE), "Current and Future Cost of Photovoltaics," Fraunhofer-Institute for Solar Energy Systems (ISE), 2015.

² I. E. A. (IEA), "Photovoltaic Energy Roadmap," International Energy Agency (IEA), 2014.

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Response

We have structured our response around the Scenarios that were proposed by OFGEM and the questions that OFGEM raised in relation to each of the Scenarios.

SCENARIO 1: DNO FUNDS (VIA DUOS) COST OF ANTICIPATORY REINFORCEMENT (COSTS ARE SOCIALISED AS NO INITIAL CONNECTION CUSTOMER)

Q1. Would a DNO be sufficiently confident about future connections demand and the benefits to DUoS customers to justify this approach? If so, in which circumstances?

Given the mixed messages that come from government on renewable energy we think it would be unlikely that a DNO would have sufficient confidence to invest in the sort of strategic reinforcement that would facilitate new connections in an otherwise constrained area. Even if the area in question had historically seen a high demand for new connections we believe the DNO's would be nervous to invest in case the demand disappeared overnight. The disappearance being caused either by developers being forced to look elsewhere due to planning constraints or withdrawing from the market altogether due to tariff cuts making development no longer viable.

Due to the above we believe DNO's will consider that the risk of being left with a stranded asset which burdens DUoS customers will outweigh any potential benefits.

Any reluctance on the part of the DNO's to invest in strategic reinforcement could potentially be overcome by introducing a "Central Safety Net" mechanism. Under this mechanism, if a DNO builds new assets but the anticipated new connections do not materialise, the DNO could apply for compensation from a central fund rather than having DUoS customers indefinitely picking up the bill for the stranded asset (and the DNO being penalised therefor).

Because of the backing of the central government behind such guarantee-mechanism, a powerful incentive would be created – without requiring direct funding – for investments in distribution network infrastructure development. As the development of the renewable energy market depends to a certain extent on the central governments renewable incentive policies, it is unlikely that assets will have to be compensated from the Central Safety Net as long as such policies stay in place.

There would obviously need to be a system of checks in place against potential system abuse by DNO's that may otherwise see this as a way of getting capital works paid for centrally.

Q2. What other barriers are there to DNOs taking this approach? How might these be overcome?

DNO's may be concerned about how they manage the communication of any strategic reinforcement. The nature and timing of any announcement could be critical as it could result in a deluge of applications for new connections in the area.

SCENARIO 2: DNO FUNDS (VIA DUOS) COST OF ANTICIPATORY REINFORCEMENT WHEN INITIAL CONNECTION TAKES PLACE (TO BE REIMBURSED BY SUBSEQUENT CONNECTION CUSTOMERS)

Q3. What are your views on this type of approach and the RAV Buyback Model? Are there any elements which are essential, not required or should be changed – and why?

We refer to our answer on Question 1. In a quickly developing market, the RAV Buyback Model may prove to be somewhat rigid as the prerequisites for OFGEM consent are rather stringent. We propose an amendment of the RAV Buyback Model which gives the DNO's a little more flexibility prior to the investment (which will increase an expeditious rollout of investments) and subsequent backing of such investments through the Central Safety Net. Backing of through the Central Safety Net of stranded assets should only be withheld in case the investment decision – given the circumstances at the time of such decision – should be considered to be negligent.

Q4. Please give details of any projects or schemes this type of arrangement could have helped progress which would have not otherwise gone ahead?

No such examples are available to us.

Q5. What would justify requiring subsequent connection customers to only be able to connect to the new, enhanced part of the network?

We feel it is fundamental that a customer requiring a new connection should be offered the lowest costs scheme available at that time. If a connection to the newly enhanced part of the network is not the lowest cost scheme then there should not be an obligation to connect there.

Q6. What would justify a DNO charging a premium to subsequent connection customers to reimburse DUoS customers for the risk they bear in funding this work? What might be the impact of this? How should the premium be calculated?

We do not believe that there should be any mechanism for placing a premium on subsequent connection schemes. As mentioned previously our preference would be that any risk in funding is covered by a Central Safety Net-mechanism.

Q7. Over what time period would it be reasonable to expect DUoS customers to be reimbursed for their initial funding?

The current second-comer period of 5 years is too short and we would support this being increased to 10 years.

Q8. When might it be appropriate for a DNO to have an upfront revenue adjustment to cover this type of scheme? Or should existing mechanisms be used?

This question does not fall within the scope of our business.

Q9. Do you consider that this approach would have any implications on competition in connections?

The current situation in which the second-comer rule does not apply to assets built by an ICP is prejudicial to competition and any new legislation must ensure a level playing field between “all works” and “competition in connections”.

SCENARIO 3: CONNECTION CUSTOMER FUNDS COST OF ANTICIPATORY REINFORCEMENT WHEN INITIAL CONNECTION TAKES PLACE (TO BE REIMBURSED BY SUBSEQUENT CONNECTION CUSTOMERS)

Q10. What are your views on the DevCo model and process set out in Appendix 2? Are there any elements which are essential, not required or should be changed – and why?

It needs to be pointed out that the “partnership” DevCo model and process as set out in Appendix 2 is just one example of how a Connection Customer could fund anticipatory reinforcement. There are other examples that need to be considered such as a single developer funding the reinforcement, potentially without even having a particular DG scheme to connect. For instance, if the DNO will not invest ahead of need should it be possible for an infrastructure developer to undertake that investment and make a return on it? Given inevitable complications of partnerships and consortiums it may well be that a single entity is more likely to be able to proceed to getting reinforcement built in an acceptable timescale.

Q11. Please give details of any projects or schemes this type of arrangement could have helped progress which would not have otherwise gone ahead?

No such examples are available to us.

Q12. What would justify requiring subsequent connection customers to only be able to connect to the new, enhanced part of the network?

We feel it is fundamental that a customer requiring a new connection should be offered the lowest costs scheme available at that time. If a connection to the newly enhanced part of the network is not the lowest cost scheme then there should not be an obligation to connect there.

Q13. What would justify a DNO charging a premium to second-comers to reimburse the customer? What might be the impact of this? How should the premium be calculated?

We believe that a DNO should only seek to recover costs as defined under the current second-comer rule. We see no reason to change these arrangements.

Q14. Over what time period would it be reasonable to expect the customer to be reimbursed for their initial funding?

Initial funding would be expected to be reimbursed within 10-15 years. This term should reflect the relevant market practice for repayment of project financing for such infrastructure.

Q15. What would justify the initial investor being permitted to restrict the type of schemes that would connect using the infrastructure it has paid for? For which type of schemes might this be appropriate?

If the assets funded by the initial investor are adopted by the DNO there should be no restrictions. If there is any desire/requirement to restrict the types of schemes the assets should be held privately.

Q16. Do you have any comments on the recommendations proposed in Appendix 3 to enhance consortium arrangements? What would justify these recommendations? Are there any other changes which would support consortium arrangements?

Whilst Appendix 3 explains a number of issues faced by consortium arrangements it does not really make any recommendations for enhancement.

SCENARIO 4: OTHER WAYS OF MAKING IT EASIER TO CONNECT

Q17. What role, if any, could changes to engineering standards play in helping to accelerate the connections process without damaging reliability levels? In what circumstances would this be appropriate?

Key is the question whether, without compromising safety or system reliability, a DNO can ease some of their standards in order to provide more capacity. We feel that there is potential for changes to standards to help drive down cost of connections. However, we are less certain as to whether any changes could accelerate connections.

Q18. Which particular standards might most benefit the connections process if changed?

We would recommend that DNOs are obliged to reduce the barriers to modern methods of construction for non-adopted point of supply substation buildings. We would also like to recommend implementing a new mechanism whereby a DNO can be challenged if any engineering solution they are insisting on is not in line with industry standards or they are not willing to implement a solution that is acceptable in another DNO region.

Q19. What benefits might the introduction of assessment and design fees bring?

Whilst giving the DNOs the ability to charge customers for new connection applications may dissuade a few very speculative applicants we do not feel it is likely to lead to quicker and more efficient distribution connections unless it is accompanied by a reduction in the time allowed for the DNOs to make offers.

Q20. Could more flexibility in the way assumed available capacity is calculated help accelerate the connections process? Are there any other improvements to be made in how DNOs manage interactivity between schemes looking to connect to the same part of the network?

This question does not fall within the scope of our business.

Q21. When might it be reasonable to withdraw capacity it has previously offered to customers?

Prior to planning permission granted: In situations where the customer is unable to demonstrate any current progress/activity towards obtaining planning permission, whereby 'activity' should not be restricted to "planning application submitted" but needs to take into consideration demonstrable progress in surveys, consultations etc.

Post planning permission granted: In situations where the planning permission has expired.

Post connection: There are a lot of connections that have an agreed Maximum Export Capacity that exceeds the maximum possible output of the installed generating plant. We would recommend implementing a nationwide (cross-DNO) policy to reclaim this stranded capacity. Some customers will have earmarked the spare capacity they hold for potential future upgrades to their generating plant but their ability to hold capacity for this purpose needs to be weighed up against the need for more distributed generation connections to meet national renewables targets. Our view is that a customer should be required to demonstrate meaningful progress towards the utilisation of any spare capacity they hold and the DNO should monitor this closely and step in to reclaim the spare capacity if no progress is made.

Q22. Are there any other changes which could be made to reduce the need for reinforcement?

We strongly believe that the DNOs should monitor offered but not connected grid capacity more thoroughly and act quicker to withdraw grid offers where the customer cannot demonstrate any meaningful progress.

In addition to this, DNOs should be required to accelerate their roll out of Active Network Management.

Q23. What would justify a DNO offering more flexible terms for connection charges? What might be the impact of this?

We have always been informed by the DNOs that it is a requirement of their licence to remain cash positive for any works associated with new customer connections. We would welcome any approach that requires a DNO to actively reflect its actual cash flow rather than their purchase orders as this should reduce the need for large lump sum payments at early stages of a project.

Q24. What type of schemes would most benefit from this arrangement?

We can see how the ability to procure a new connection on credit would be of interest to community projects.

Q25. What could be done to protect other customers from picking up any costs which cannot be recovered from the original connection customer?

Whilst we are not against the principle of DNOs being able to offer credit on new connections we feel strongly that customers that do not take advantage of this should in no way have to cover any costs associated with bad debt.

Q26. Are there any other measures that would reduce the cost impact of connecting to the network?

We feel that there should be far greater transparency on the way the DNOs price new connections and reinforcement works. DNOs should be forced to provide detailed bills of quantities for the charges they make for new connections and that there should be a simple mechanism for a customer to be able to challenge charges that they feel are unreasonable.

Also, it should be considered to mark more scope of works as ‘contestable’ so the customer can go out to the market to get a more competitive price than offered by the DNO.

SUMMARY AND NEXT STEPS

Q27. Which of the arrangements described above would deliver the greatest benefit to the connections process without placing additional risk or cost on the generality of customers, and why?

Scenario 1 with a Central Safety Net. This is the only one that offers a step change from the status quo.

Q28. Should wider benefits beyond energy system benefits (such as those provided by NTBMs) be taken account of in DNOs’ or third parties’ considerations of any of the measures or mechanisms described in this paper?

This question does not fall within the scope of our business.

Q29. Do you have any other suggestions for delivering quicker and more efficient connections?

All of our suggestions have been incorporated in our answers to the above questions.

Conclusion

Together with OFGEM, Lightsource recognises the need for further investments in the distribution network infrastructure and we appreciate that such investments should be done at the lowest cost to the consumer. However, Lightsource would like to emphasise that a robust and modern distribution network is the cornerstone of distributed generation for the future. As such, investments should be able to be carried out as expeditiously as possible and we therefore encourage OFGEM to take into account the points that we have raised in this response as we consider these to be fundamental for obtaining viable grid connections.

Lightsource is grateful and would like to thank Ofgem for this opportunity to submit a response to this Consultation.