



## **OFGEM consultation ‘Targeted charging review: minded to decision and draft impact assessment’**

### **Joint response by Community Energy England, Community Energy Scotland & Community Energy Wales February 2019**

#### **INTRODUCTION**

**This is a joint response by Community Energy England, Community Energy Scotland & Community Energy Wales** who together represent over 700 community energy groups and associated organisations across England, Scotland and Wales involved in the delivery of community-based energy projects that range from the generation of renewable electricity and heat, to the energy efficiency retrofit of buildings to helping households combat fuel poverty.

These schemes have in the main been developed by volunteers, who have given countless hours of time, working through complex technical, legal and regulatory aspects of designing an energy project. These groups have also gone on to raise millions of pounds investment from their local communities to deliver these schemes – typically sited in challenging locations which commercial developers ignore – from church roofs and school buildings to inner London tower blocks to remote Scottish islands.

**The period since 2015 has seen a significant reversal in policy support for the sector to such an extent that community energy groups, and wider stakeholders, now see the Government as actively dissuading communities from working together and exploring opportunities to develop local low carbon projects.**

#### **KEY POINTS**

We recognise that even with significant growth in decentralised energy capacity, there will remain for many years to come the need for major transmission and distribution network assets for the UK electricity system to work effectively, and hence these networks must be paid for. As such, the current residual charging arrangements will increasingly lead to the costs of maintaining these networks falling upon those users who cannot influence these charges as they do not have – and possibly will be limited in having – opportunities to introduce their own onsite or local generation, which may help avoid their exposure to network fees.

However, whilst we recognise that changes must be made, we believe that:

- Ofgem’s proposals for a fairer charging regime for residual payments will create new ‘unfairness’ and uncertainty for exactly those sectors needed to grow if the UK is to shift to a more decentralised, digitized and decarbonised electricity system.

- The proposal to further reduce embedded benefits through the application of BSUoS payments on smaller generators is unjustified. We do not agree to such a change.
- Ofgem report that the bulk of the proposals work against investment in smaller generation projects, typical of community energy, and at the same time support the development of larger scale CCGT power stations. We fail to see how this can be seen as 'fair'.
- The document states that Ofgem “[3.2 ...] have been mindful of our environmental obligations and have formally assessed the carbon impacts of proposed reforms. In doing so we are trying to be fair, proportionate and practical” citing that Ofgem “must assess and make a decision on TCR within the prescribed framework of the SCR process”. This appears to show the SCR process constrains Ofgem to consider how to implement this process within a context of the UK’s national climate change obligations, and has potentially led to the outcomes delivered which are negatively impacting renewable generation and energy efficiency action. It is possible that the SCR is not fit for purpose in an energy system that must undergo rapid decarbonisation.
- The level of complexity associated with this consultation make it hugely difficult to understand what the full impacts the changes may bring. We are disappointed that Ofgem did not run specific workshops for smaller generators (i.e. <5MWe) to explore proposals in greater depth. The community energy sector will play a vital role in helping shape regulation from a user’s perspective as we move to a greater decentralised energy system. We believe funding should be provided to enable community groups to attend and participate in Task Forces.
- We also believe that more detailed case studies on community-scale projects are required to better understand the impacts on projects of both the forward-looking and residual changes being proposed.
- Ofgem indicate that the impacts of the changes to residual payments on embedded generators must be balanced against work being undertaken through the associated ‘Reform of network access and forward-looking charges’ consultation. However, under the present timetable set out<sup>1</sup>, generators will **not** be able to see an equivalent ‘Minded-to-Decision and draft Impact Assessment’ on the latter until Spring 2020. Ofgem’s December 2018 ‘Scope of Review’ document<sup>2</sup> includes some positive areas of work that the community energy sector is likely to welcome being reformed, however, the hiatus between the two workstream areas puts developers in an invidious position in terms of securing finance for projects where so much uncertainty on forward cost implications around projects remain.
- Ofgem highlight that their proposals around residual charges effectively removes any signals to end users to not only avoid installing onsite generation, or new flexibility solutions (DSR, energy storage) and even energy efficiency measures, as they will attract increased residual charge costs. By adopting a strategy to effectively dampen

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<sup>1</sup> <https://www.ofgem.gov.uk/electricity/transmission-networks/charging/reform-network-access-and-forward-looking-charges>

<sup>2</sup> *Significant Code Review (SCR) Launch statement letter*, and *Appendix 1: Details of decision on the scope of the review*, Ofgem, 18 December 2018

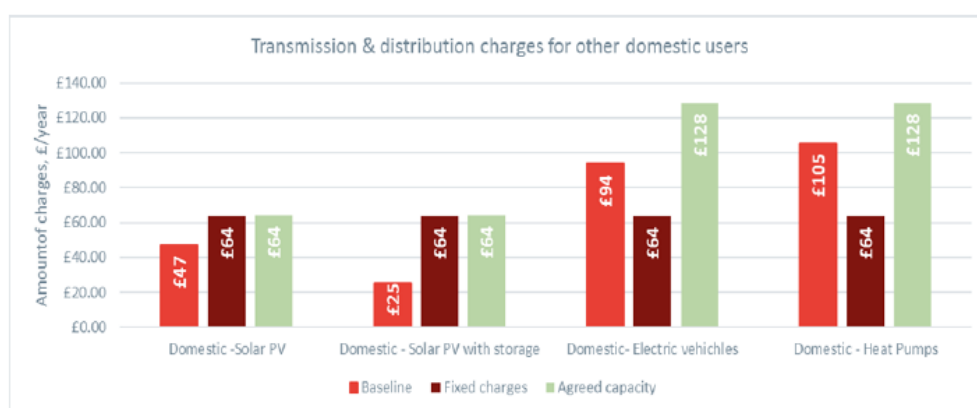
behavioural responses by users to reduce energy consumption questions the whole rationale of why households are contributing some £11bn plus through charges applied to them for the government's smart meter roll out.

- The TCR modelling suggests that Ofgem's proposals will create an incentive for more 'efficient CCGT' capacity coming forward. We do not understand how such an outcome would result in lower carbon emissions sufficient to ensure that UK is on a trajectory to achieve the UK's 4<sup>th</sup> and 5<sup>th</sup> carbon budgets. [It is also not clear on how these new CCGT plant can be both flexible – ramping up and down in response to renewable generation output – and at the same time achieve efficiencies of 54%].
- When the Secretary of State talked about 'no free riders' in his 15 November speech on the future of energy policy, it is unlikely to have included penalising increasing numbers of households suffering from fuel poverty. In the interests of consumers, Ofgem should be looking to support mechanisms that deliver greater levels of home energy efficiency – not introducing new regulation that works to undermine efforts.
- A future charging regime that incentivises building new Combined Cycle Gas Turbines (CCGTs) over renewable energy, flexibility and energy efficiency projects sends a perverse signal to developers, community groups and users and undermines UK energy transition progress.
- We would like to understand what action could be undertaken by Ofgem if, as has been raised by renewable energy stakeholders, the combination of forward looking and residual charges impacts negatively on the renewables sector (as highlighted in para 6.29 of the consultation document) and curtails new investment and capacity coming forward.
- **A key principle of the TCR consultation is to create a 'level playing' field between different types of generation, but we do not believe all generation is created equal. An increasing number of studies both in the UK and internationally show that community energy projects deliver much more to community/users than a conventional, commercial power station. As Minister for Energy Claire Perry MP has recently stated: "...community energy a key cornerstone of government's ambition for transition to a low-carbon, smart energy system". Ofgem's proposals as they currently stand undermine community energy and place barriers to achieving this transition.**

## COMMENTS ON CONSULTATION

The level of complexity associated with the consultation make it hugely difficult to understand what the full impacts the changes may bring, even for large industrial users. However, it is clear that the bulk of the proposals work against investment decisions to support the growth of smaller generation typical of community energy projects, with Figure 12 from the consultation (reproduced below) showing an increase in costs for domestic PV and domestic PV with storage generators.

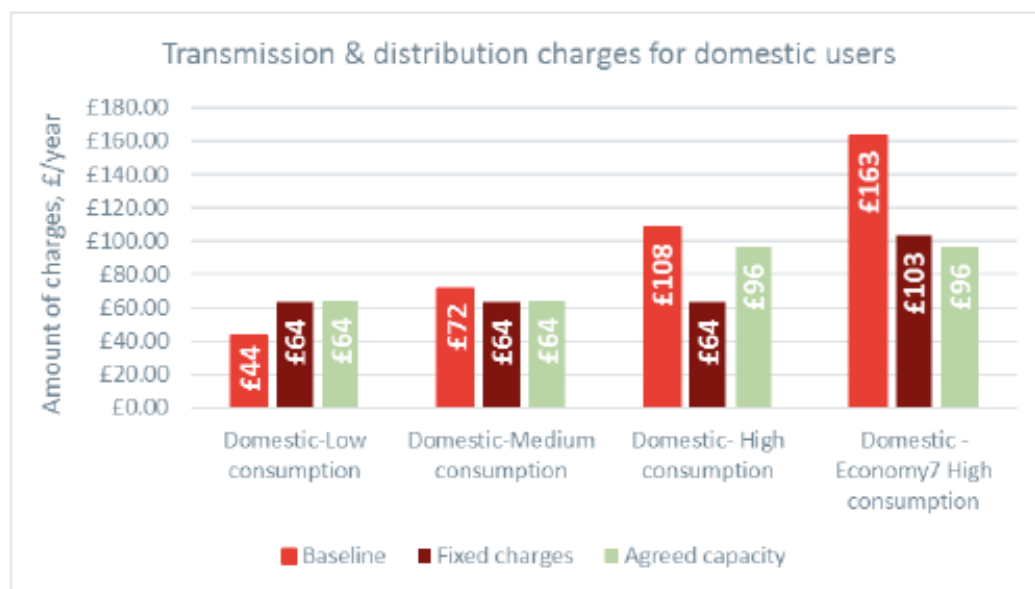
*Figure 12 Impacts of the leading options on low-carbon technology users*



Ofgem's desire to establish a 'level playing' field for generators (by removing embedded benefits) does not appear to extend to supporting smaller generators through this consultation process. There is a clear information deficit amongst different players with regard to being able to respond to this consultation. No small-scale generation (<5MWe) workshop was organised by Ofgem to help steer generators through the changes being proposed, even though such projects were identified as being adversely impacted. Discussions will continue to be dominated by the larger, incumbent energy sector businesses, who have the experience, resources - and who are also represented on the key industry code panels - to ensure they achieve their key goals. The asymmetric nature of debate in these complex discussions is an issue that has previously been made by challenger companies in the DSR sector during the establishment of the Capacity Market: an issue recently ruled on against the Government by the European Court of Justice<sup>3</sup>.

Reducing energy consumption through the introduction of energy efficiency solutions or installing onsite generation and/or storage, also attracts increased charges under the new proposals. Moreover, changes proposed also have the potential to impact negatively on the most vulnerable in society where households with typically lower consumption will be charged more. When the Secretary of State talked about 'no free riders' in his 15 November speech, it is unlikely to have included penalising the increasing number of households suffering from fuel poverty. This is highlighted in Figure 11 from the consultation paper (reproduced below):

<sup>3</sup> *Capacity Market suspended after landmark EU ruling*, BusinessGreen, 15 November 2018



The savings modelled for Ofgem's minded to proposals forecast savings as follow:

- Distributional effects save median domestic users consumer £8
- In addition to this residual changes could save around £2 a year in longer term
- Low Domestic Users: see increase in annual charges from £2-22 per year

In terms of helping customers reduce their energy bills, Ofgem's modelling highlights that the TCR will do little for the majority and for some users actually increase costs. It is also not clear whether the cost benefits to consumers of using onsite and local distributed energy generation, and flexibility technologies solutions have been taken into account.

The paper sets out that modelling undertaken indicates that *"6.29 There is a risk that these changes could lead to the cancellation of some projects, including renewable generators which have been awarded CfD contracts and smaller generators which have been awarded CM contracts, which are not yet online and which would face an increase in charges under both of our options. We note that our analysis indicates no concerns with security of supply from our proposed reforms."* It's not clear whether the potential cancellation of these projects would have knock on effects to consumers and if such costs have been modelled. At a time when community energy generation has faced significant impacts due to the reduction and forthcoming closure of Feed in Tariffs (FITs), and hiatus and uncertainty over the government's proposed Smart Export Guarantee (SEG) – it is anticipated that Ofgem's proposals will extend to smaller projects, further exacerbating the potential of future projects. Furthermore, changes will be introduced over a period when government have stated that no new support mechanisms (up to 2025) for renewable energy systems will be forthcoming.

The modelling undertaken can also not take into account the full range of benefits that community energy projects can bring. A report on the future potential for community energy, commissioned by Government, found that: *"community projects installed offer between 12-13 times as much community value re-invested back into local areas as would be achieved through 100% commercial models. The estimate is based purely on an assessment of economic value, when full social and wider environmental returns are factored in the benefits will be*

*substantially higher.”*<sup>4</sup> A key principle of the TCR consultation is to create a ‘level playing’ field between different types of generation – but – we do not believe all generation is created equal. Community energy projects deliver much more to community/users than a conventional, commercial power station.

It should be recognised that for the vast majority of customers these proposals will do little to help in terms of reducing energy bills, and any savings will be quickly eroded by future energy price rises<sup>5</sup> – as indicated this week with an expectation that Ofgem will raise its price cap by £100<sup>6</sup> within a month of the original level being set. It is only through adopting a holistic approach to the use of energy efficiency measures, and, where appropriate onsite and community generation solutions that consumers will begin to see a real reduction in their bills. With the consumer in mind, Ofgem should be looking to support mechanisms that deliver this outcome – enhancing and building upon national policies, not introducing new barriers that undermine progress.

The Government’s public attitude tracker consistently shows the public’s strong support for renewable energy and a recent survey by ClientEarth reported that *“almost three quarters of consumers would be interested in joining a community energy scheme if the government made it easier (71%), and individuals keen to install their own solar panels (62%) and home energy storage (60%)”*.<sup>7</sup> Regulations should be supporting the public’s appetite to take part in the energy transition – not hinder them.

There are also strong regional differences between the impacts of the residual charges changes (set out most clearly in the LCP/Frontier Economics Impact Assessment report<sup>8</sup> Figures 10/11), which needs further analysis. As decarbonisation efforts continue, regions and communities will increasingly look to take advantage of key energy opportunities that may be unique to their areas (e.g. higher wind regimes, increased solar incidence and/or availability to install solar projects, major heat sources, bioenergy resources, large scale urban energy efficiency rollouts, etc). The future charging methodologies being proposed introduce new risks to the delivery of these initiatives which need to be better understood.

The UK’s progress on reducing CO<sub>2</sub> emissions has come about principally through the process of shifting high intensive coal power plant to gas and renewable electricity generation. The Committee on Climate Change has highlighted that *“progress in the power sector masks a marked failure to decarbonise other sectors. In the last five years, this failure has become more acute, as emissions reductions in these sectors have stalled.”*<sup>9</sup> Achieving future legally binding carbon budgets will be far more challenging, with a significant shift required by the public to adopt measures such as energy efficiency solutions, the use of localised generation, a switch to smart tariffs, the uptake of EVs and so on. This all requires a strong element of behaviour change. The TCR, with its shift to reducing the economics of embedded generation projects,

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<sup>4</sup> *Community Renewable Electricity Generation: Potential Sector Growth to 2020*, Report to DECC, Peter Capener, 2014

<sup>5</sup> *Big rise in UK energy bills likely this spring despite price cap*, The Guardian, 19 January 2019

<sup>6</sup> *Rise in price cap for energy bills puts watchdog in spotlight*, Financial Times, 2 February 2019

<sup>7</sup> British public supports urgent action and litigation on climate change – poll reveals, Client Earth, 20 August 2018

<sup>8</sup> [\*Distributional and Wider System Impacts of Reform to Residual Charges\*](#), LCP & Frontier Economics, November 2018

<sup>9</sup> Reducing UK emissions 2018 Progress Report to Parliament Committee on Climate Change June 2018

and to introduce higher charges for those homes and businesses which invest in energy efficiency, sends all the wrong signals to users.

The Minister for Energy has recently written<sup>10</sup> that: *“This revolution has also taken root at a smaller scale up and down the country as more homes, schools and businesses choose to generate their own electricity from solar panels, small wind turbines and hydro power. But the UK’s success in deploying low carbon generation is just the start of the transformation of our energy system with community energy a key cornerstone of government’s ambition for transition to a low-carbon, smart energy system.... Small scale generation and battery storage can play a crucial role in cutting carbon emissions as part of this smarter energy system by reducing local demand and providing clean power into the grid when it is needed. This will help avoid costly future connection costs for communities as power consumption grows with electric vehicle uptake and a growth in electric heating.”* The TCR’s proposals work directly against the government’s ambitions, as set out by the Minister.

Similarly, whilst the Secretary of State’s speech (cited earlier) supported Ofgem’s proposals, the Minister also called for government action to ensure that future action would deliver:

- *“The transformation of distribution and supply should deliver, amongst other things, the prize of domestic energy efficiency improvements.”*
- *“We need to ensure that innovative businesses of the present and future can capture the system and network benefits of persuading customers to reduce their energy demand”* and that
- *“... in a world of technological transformation, there are other diverse solutions that should be explored through competition. For example, at any location, a demand-side-management scheme might be better than a network reinforcement, or a big battery might be better still”*

Again, the TCR does not lay down the foundations for such action, but actively places barriers in the way.

## CONCLUSIONS

Ofgem’s planned TCR reforms risk undermining the government’s stated ambitions for local generation, community energy and energy efficiency – as well new smart solutions such as DSR and storage. The TCR has not been designed in a way that will incentivise the sorts of investment and behaviour that communities – and the government – wish to see.

We request greater examination of how smaller scale generation (<5MWe), typical of community scale projects, will fare under forward-looking and residual charges proposals.

The community energy sector needs greater representation through the SCR process over the coming few years. Ofgem should support smaller generators to take part in these discussions.

There needs to be greater alignment between Ofgem’s work on forward-looking charges and residual charges. At the present time, the community energy sector view Ofgem’s comments

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<sup>10</sup> [Claire Perry: ‘From power stations to solar panels, the future is local’](#): An opinion piece from the Energy Minister, Energy Live News 8 January 2019



that forthcoming forward-looking and network access proposals will balance the negative impacts of the residual charges consultation as unlikely to materialise.

Community Energy Scotland, Community Energy Wales and Community Energy England remain committed to supporting the UK's transition to smarter, more affordable low carbon energy system through the wider uptake of local, community-led energy projects. We would welcome the opportunity to work with Ofgem to develop solutions to ensure that the value that community energy brings is not lost within this transition and to create a fairer charging framework.

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## FURTHER INFORMATION:

**Community Energy England (CEE)** was established in 2014 to provide a voice for the community energy sector, primarily in England. Membership totals over 200 organisations. The majority of the member organisations are community energy groups, but membership extends across a wide range of organisations that work with and support the community energy sector.

[www.communityenergyengland.org](http://www.communityenergyengland.org)

**Community Energy Scotland (CES)** is a Registered Scottish Charity and Company Limited by Guarantee established in 2007. Its mission is to strengthen and empower local communities by helping them to own, control and benefit from their local renewable energy resources, control and reduce their energy costs, regenerate their communities and play their part in the low carbon transition. CES has around 400 members and has worked with well over 500 community groups across Scotland. It has a 33% share in a joint venture 7.5MW windfarm 'The Fishermen Three' in Berwickshire, developed with its partner Berwickshire Housing Association to create long-term revenue for both CES' and BHA's charitable purposes.

[www.communityenergyscotland.org.uk](http://www.communityenergyscotland.org.uk)

**Community Energy Wales (CEW)** brings together a network of practitioners and a membership of over 60 organisations who work with and within the communities of Wales to develop renewable energy generation and energy efficiency schemes.

[www.communityenergywales.org.uk](http://www.communityenergywales.org.uk)