

## **REA response to Ofgem consultation on the Targeted Charging Review SCR**

The Renewable Energy Association (REA) is pleased to submit this response to the above consultation. The REA represents renewable electricity, heat and transport, as well as Electric Vehicle companies and Energy Storage. Members encompass a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are around 550 corporate members of the REA, making it the largest renewable energy trade association in the UK.

### **Introduction**

The TCR proposals risk the transition to a flexible, low carbon energy industry, and with it lost jobs and investment. They must be taken in the context of a myriad of negative policy change in recent years, making it very difficult to develop new renewable electricity capacity beyond offshore wind and the scale of the low-carbon industry's opposition to the current proposals is clear, with the REA signatories to joint letters from a number of organisations and the majority of members strongly opposed to the proposals.

With an unprecedented level of change in the energy industry and grid charging regime, grid and networks fees are a critical area for the renewable energy, energy storage and EV industries.

We have received evidence on the very detrimental bottom line impact of the proposed changes when combined with the various other grid charging changes of the past few years, which we have anonymised and included in our response as Annex A (please see separate attachment). This makes clear that certain renewable power projects will be unable to progress in the future and existing ones where feedstock costs have already gone up for example will be badly hit. In addition, Ofgem's modelling has explicitly ignored the network impacts which could cause a significant deviation in consumer benefits as a result of removing the incentives for a smart flexible network - the Imperial College report "Blueprint for a post Carbon Society" shows the whole system benefit of residential flexibility could be up to £6.9billion. Therefore, the £8 customer benefit suggested by Ofgem is not being considered against the negative impact this could have on the flexibility market.

### **Key points**

**We have not responded to the individual questions set out but would like to make the following points which relate across the questions:**

- The ongoing grid and network charging reforms are very inter-related and complex, although we appreciate the efforts being made to simplify and communicate these, for example via the CFF Podcasts and Open Networks programme, and as much coordination as possible is essential.

- As a minimum, the Targeted Charging Review Significant Code Review (TCR) and Access & Forward Looking Charges Significant Code Review must be coordinated and implemented in parallel, which the projected timelines indicate should be possible. This is especially important when modelling suggests that the likely impact of the TCR will be very negative on most renewable, and flexible technologies, but that of the Forward-looking charges may balance this out to some degree.
- Smaller embedded generators should not be charged BSUoS rates - ie progress Options 1 & 2, not 1, 2 and 3 for reform of the remaining Embedded Benefits.
- It should be ensured that the Forward-looking charges do provide pro-active signals for flexible behaviour from generators and demand, to offset the loss of signals from the TCR reforms.
- By moving to fixed or capacity based charges, reductions could be gained for those who use more electricity rather than less by installing on-site generation and storage. This is a harmful distortion as it could lead to profligate energy consumption and increases carbon emissions. Those homes and customers who have sought to effectively manage and reduce their electricity consumption and help decarbonise the grid will be penalised with higher bills as a result of this change. This is a disincentive to the adoption of flexible grid management technologies, electric vehicles and renewable energy.
- Regarding the use of LLFCs, while we understand the use of LLFC categories for ease of classification, we would note that LLFC was not designed for this policy area in mind. It should be reviewed in the future to ensure it remains fit for purpose.
- If capacity-based allocation was adopted, we have concerns about the suggested bandings 4kVA, 6KVA, and 8KVA for domestic customers. Given the Government EV targets and the greater uptake of electrified devices and heat pumps, we do not think this assessment is fit for purpose or future looking. With these charges, we believe the majority of domestic customers could end up paying more, or that the higher charges could disincentive EV uptake.
- Regarding system modelling for residual reform, there is likely to be a significant impact on the willingness to invest in the provision of local flexibility resulting from the proposed residual reform. In the modelling, we are concerned that this understated the value of local flexibility. The localised nature of some types of flexibility, such as that situated behind-the-meter, means that these may well be especially well-suited to providing services to avoid unnecessary network reinforcement.

- We request a set of case studies showing the exact impact expected on various users of the network – combining the likely outcomes of the TCR SCR and the Access and Forward-looking charges work, to allow industry to examine the impact 'in the round'.
- In terms of the operating environment for renewables, this has shifted considerably in the past two years, such that grid access and use of system charges have become critical to business cases. This is also the case with energy storage devices, which do not receive any direct public support. Therefore this is a very important matter for the renewables and clean tech sector with the power to significantly negatively impact project business cases. We also note the impact on businesses of those which have 'done the right thing' by installing on-site generation in the past and smart technologies, who will be penalised under the proposals.

### **Impact across renewables and the decentralised, smart energy landscape, as well as decarbonising all forms of energy**

The landscape for embedded, distributed renewable generators has considerably deteriorated in the past few years due to a number of adverse policy and regulatory decisions and this must be acknowledged by Ofgem. Quite simply, the proposals are another straw for the camel's back (unless implemented alongside more positive changes to Access & Forward-looking charges).

The past three years has seen the closure of key support schemes, the Renewables Obligation (RO), the ending of c.93% of the Embedded Benefits payments, lack of Contracts for Difference auctions and funding frozen to 2025 through the Control on Low Carbon Levies. This is to indicate how increasingly difficult it is becoming to develop new renewables projects in the UK, despite the need for new capacity as coal and nuclear plants come off-line. The sector sees this as yet another challenge to deployment, for example the loss of income/imposition of charges of c.£5/MWh for sub 100MW projects as BSUoS charges are applied is very significant, especially in the light of low wholesale electricity prices and falling feedstock prices.

There is also huge concern among related clean technologies – for example we see the business case for Electric Vehicle (EV) charging developing and shifting significantly in the next few years. Modelling by Aurora Energy Research on behalf of the REA and its members (available online) outlines the benefits of co-location of many types of EV charging C&I deployments with solar and battery storage. This is because charging projects can reduce costs for wholesale electricity procurement by co-locating solar, and can tap into ancillary services markets directly by installing storage onsite. This must be incentivised and encouraged, for the wide system benefits it creates, rather than being slowed with new hurdles being erected.

We also see the EV charging industry evolving in the coming years. We see a greater premium than at present put on the 'smartness' of chargers and the backend software that allows for demand aggregation and/or other new revenue streams (assuming of course the level of incentivisation given to smart charging by the future network usage and access regime). The REA is working with the Government's EV Energy Taskforce at present, in part on determining what smart charging will entail following the assent of the Automated and Electric Vehicles Bill and the Government's new ability to mandate smart charging for new units.

Smaller scale users must be treated fairly and not suddenly be confronted with rapidly increased fees for a micro rooftop solar installation they have had for several years, for example, without adequate communication and justification for this. The proposed small-user usage thresholds must also not become a barrier to new micro-renewables being installed. The same can be said for any new network usage fees incurred by households due to an existing or future home EV charging installation.

If the access reforms and changes to more cost-reflective forward pricing do benefit renewables projects and especially energy storage, which can offer considerable benefits to the grid, as likely, it is essential that the regressive impact of the TCR must not outweigh this.

### **Request for Case Studies illustrating impact of proposals with Forward looking changes modelled too**

We request a set of case studies showing the exact impact expected on various users of the network – combining the likely outcomes of the TCR SCR and the closely-related Access & Forward-looking charges work, to allow industry to examine the impact 'in the round'.

It is vital to have several case studies of sites with on-site renewables generation, with energy storage, and with EV charger(s) in place. Without this we can only comment on half of the picture.

### **Summary**

In conclusion, the Targeted Charging Review needs to be considered in combination with the Access & Forward looking charges consultation and the timelines and implementation combined, to allow for analysis of the holistic impacts and avoid any unintended consequences. The proposals risk making existing and future renewable power projects unfeasible financially, at complete odds with Government policy.

The proposals turn on the head the messaging and incentives of the past decade by punishing those who have installed generation and flexibility resources on-site at homes and business premises, and puts at risk the pace of transition to a flexible low carbon energy system.

Smaller embedded generators should not be charged BSUoS – this means progressing Options 1 & 2 for reform of the remaining Embedded Benefits, rather than 1, 2 and 3, from the proposals.

The proposals are at odds with publically stated policies from Government and we are concerned that the modelling understates the value of local flexibility. The localised nature of some types of flexibility, such as that situated behind-the-meter, means that these may well be especially well-suited to providing services to avoid unnecessary network reinforcement. The modelling also assumes the continuation of the Capacity Market, which is uncertain.

**REA, February 2019**