

## COMPANY

# Lightsource BP Renewable Energy Investments Limited

## CONSULTATION DESCRIPTION

# Response to Consultation on Ofgem's Targeted Charging Review: minded to decision and draft impact assessment – 04 February 2019

Lightsource BP Renewable Energy Investments Limited response to the Consultation on Ofgem's Targeted Charging Review: minded to decision and draft impact assessment

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## About LightsourceBP

Lightsource BP Renewable Energy Investments Limited (**LightsourceBP**) is a global market leader in the development, acquisition and long-term management of international large-scale solar projects and smart energy solutions. Our projects generate competitively-priced, dependable, clean energy for businesses and communities.

In this document we have set out our response to the consultation questions raised by Ofgem in the *'Consultation on Ofgem's Targeted Charging Review: minded to decision and draft impact assessment* published on 28 November 2018 (**Consultation**).

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

## Contact Details

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## Response

We have set out our response below to the Consultation questions raised by OFGEM.

## Questions

### Question 1 - Do you agree that residual charges should be levied on final demand only.

- In principle we agree that all final demand users should pay to maintain the distribution and / or transmission network at the point of connection with that network as a necessary cost to maintain access.
- LightsourceBP are however concerned given the recognised changes in the energy sector over the last decade as well as those to come that OFGEM are approaching aspects of the problem piecemeal whilst undermining government policy on decarbonisation and future flexible networks which have been driving investment and R&D in a positive direction but could now dampen investment and damage business opportunities.

### Question 2 - Do you agree with how we have assessed the impacts of the changes we have considered against the principle? If you disagree with our assessment, please provide evidence for your reasoning.

- We are concerned that this 'minded to' decision on residual charging is impacting existing portfolios and future development in isolation of other expected future changes re, non-locational Embedded Benefits and Network Access and Forward-Looking Charges.
- In response to our 'in principle' stance at Question 1, it does appear however that OFGEM are keen to penalise customers who have sought to reduce their carbon emissions by being proactive particularly where government have encouraged us all to do so.

### Question 3 - For each user, residual charges are currently based on the costs of the voltage level of the network to which a user is connected and the higher voltage levels of the network, but not from lower voltage levels below the user's connection. At this stage, we are not proposing changes to this aspect of the current arrangements. Are there other approaches that would better meet our TCR principles reducing harmful distortions, fairness and proportionality and practical considerations?

- We have no specific comments to make other than those made by our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

### Question 4 - As explained in paragraphs 4.41, 4.43, 4.46, 4.49, 4.80, we think we should prioritise equality within charging segments and equity across all segments. Do you agree that it is fair for all users in the same segment to pay the same charge, and the manner in which we have set the segments? If not, do you know of another approach

**with available data which would address this issue? Please provide evidence to support your answer.**

- We have no specific comments to make other than those made by our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Question 5 - Do you agree that similar customers with and without on-site generation should pay the same residual charge for their Line Loss Factor class (LLFC)?**

- One should see a benefit where a renewable generation source has been installed behind the meter – we should actively encourage as the government has done with the support of subsidies. It would seem odd to retrospectively treat existing customers with on-site generation the same and then discourage new customers who can no longer benefit from a subsidy by charging them the same as a customer who doesn't want to proactively want to decarbonise. Charging the same sends out all the wrong messages about the kind of future we want to see.

**Question 6 - Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?**

- We have no specific comments to make other than those made by our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Question 7 - Do you agree that our leading options will be more practical to implement than other options?**

- We have no specific comments to make other than those made by our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Question 8 - Do you agree with the approaches set out for banding (either LLFC or deeming for agreed capacity)? If not please provide evidence as why different approaches to banding would better facilitate the TCR principles.**

- We have no specific comments to make other than those made by our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Question 9 - Do you agree that LLFCs are a sensible way to segment residual charges? If not, are there other existing classifications that should be considered in more detail?**

- We have no specific comments to make other than those made by our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Question 10 - Do you agree with the conclusions we have drawn from our assessment of the following?**

**a) distributional modelling**

- b) the distributional impacts of the options
- c) our wider system modelling
- d) how we have interpreted the wider system modelling? Please be specific which assessment you agree / disagree with

- We have no specific comments to make other than those made by our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Question 11 - Do you agree with our proposed approach to the reform of the remaining non-locational Embedded Benefits?**

- No, we consider that the way in which your 'minded to' approach has been formed re BSUoS benefit reform is questionable. To begin with the Code Modification Proposal 307 which has led OFGEM to their 'minded to' position has been raised by ENGIE, a party who can affect the short run marginal cost of operation and hence the wholesale market price and therefore capable of retrieving the loss realised by this 'minded to' decision. So, the proposed savings to the consumer must be questionable as well the motive and timing behind CMP307. As a leading solar developer, we cannot directly impact the wholesale market price - we are a price taker not a price maker.
- There is an argument that as a result of the growth in intermittent non-synchronous generation, BSUoS costs have risen and ancillary services modified to ensure security of supply, that moving from net to gross charging and widening the charging base has some merits. Yet, such generation has been openly encouraged by government by various policies to promote decarbonisation and is a major pillar to Electricity Market Reform by incentivising investment in secure, low-carbon electricity. Huge investment has been made in these technologies which has driven the growth of the renewables industry as part of the solution to replace ageing power stations and this will be a retrospective action.
- Can OFGEM guarantee the proposed savings will be passed on from Supplier's to Consumers?
- We reviewed one of our pipeline projects which is 43MW in capacity and the negative impact of the 'minded to' decision over 25 years was a 3million GBP NPV Pre-Tax using a 6% discount rate. At the point that LightsourceBP and other developers were finding solutions to succeed in an unsubsidised world, we are now faced with this potential impact.
- The impact of the losses could be devastating to the industry wiping millions of investment portfolios and have a severe impact on future investment in UK renewables. This itself is likely to lead to increase costs to the consumer and investments directed to other jurisdictions outside Great Britain in Northern Ireland.

- Since the end of subsidies, solar deployment has dropped off a cliff edge. Investors are looking at opportunities outside the United Kingdom or seeking solutions with Corporates. OFGEM must question Frontier's future deployment levels and its comments on the impact of small changes. We will see deals completed and projects will be built but not at the levels envisaged and this alone must make OFGEM think rather than an attempt to rush this 'minded to' decision. OFGEM have previously commented about a pragmatic approach to Embedded Benefit reform. This 'minded to' decision is not pragmatic, and we encourage OFGEM to take more time.
- There appears to be no recognition of future costs of connection or deployment of solar in lower irradiated areas.
- The more recent increase in BSUoS costs quite clearly appear to be driven by constraint management to transmission connected wind farms. This increase will continue with more transmission connected offshore wind farms which continue to receive CfD funding and recover the losses in future auction rounds. Logically, these increased costs will be passed on to other Generators based on OFGEM's 'minded to' decision. LightsourceBP consider this to be a distortion. This will probably also increase future capacity market auction clearing prices but not to the extent that it will encourage combined cycle gas turbines – its ultimate policy driver.
- Are interconnectors included in the new charging base?
- LightsourceBP and other Generators like us cannot access the CfD market and investment grade Corporate solutions aren't 'low hanging fruit'. We do believe that Subsidy Free CfD solutions will help continue the development of large scale solar and have lent our support to a letter from Cornwall Insight to BEIS.
- In conclusion, the overall impact of this 'minded to' decision raises more questions than answers to its supposed long-term consumer benefits. We consider the impact on future investment in low carbon and flexible technologies will be considerable and benefits large scale transmission connected generation to the detriment of consumers, government policy, future energy mix, job creation and R&D.

**Question 12 - Do you agree with our proposal not to address any other remaining Embedded Benefits at this stage? Which of the embedded benefits do you think should be removed as outlined in xx? Please state your reasoning and provide evidence to support your answer.**

- LightsourceBP's view is that OFGEM should look at everything together and not in isolation. Moreover, the constant 'tinkering' of this area simply creates more uncertainty.



**Question 13 - Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?**

- We have no specific comments to make other than those made by our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Question 14 - Do you agree with our proposed approach to transitional arrangements for reforms to:**

- a) transmission and distribution residual charges
- b) non-locational Embedded Benefits?

**Please provide evidence to indicate why different arrangements would be more appropriate.**

- See our earlier comments and that of our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Question 15 - Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.**

- See our earlier comments and that of our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

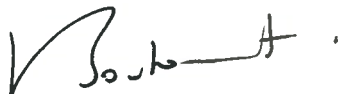
**Question 16 - For our preferred option do you think there are practical considerations or difficulties that we have not taken account of? Please provide evidence to support your answer**

- See our earlier comments and that of our respective trade bodies (Solar Trade Association / Renewable UK / Flexibility First Forum).

**Conclusion**

LightsourceBP would like to thank Ofgem for this opportunity to submit a response to this Consultation and we trust that OFGEM will reconsider its 'minded to' positions.

On behalf of LightsourceBP



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