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By email to: TCR@ofgem.gov.uk

Dear Mr Self

Future Charging and Access Programme – consultation on refined residual charging banding in the Targeted Charging Review – consultation published 3<sup>rd</sup> Sept 2019.

Falck Renewables Wind Ltd has three UK offices located in London, Bellshill and Inverness. It is the UK subsidiary of Falck Renewables SpA (“Falck”), which is a publicly listed Italian company based in Milan. The company is active in a range of renewable energy technologies (onshore wind, solar, biomass and waste to energy generation) and has a 1GW portfolio operating in Italy, Spain, France, USA and the UK.

In the UK, Falck’s assets and interests are currently represented by 12 onshore wind farms (installed capacity ~413MW). Ten of the projects are located in Scotland, with one of each of the remaining two being located in England and Wales. Falck’s two largest assets, the Kilbraur and Millennium Wind Farms are both connected at 132kV to the Scottish transmission network. With a combined installed capacity of 133MW, they represent a third of the portfolio (by installed capacity). The remaining assets range in size from ~11MW to ~59MW and are embedded within the Scottish, English and Welsh distribution networks.

We responded to Ofgem’s **Targeted charging review: minded to decision and draft impact assessment consultation** (“TCR consultation”) in our response dated 4<sup>th</sup> February 2019 and we are pleased to have the opportunity to respond to this further TCR consultation.

In our previous response we commented that the outcome of the TCR consultation and any changes that are implemented will impact the future landscape of the GB electricity market, which in turn is key to on-going financial viability of both new and existing renewable energy schemes. The current consultation covers 2 areas:

- Refined residual charging proposals
- Supplementary renewables modelling

The section on refined residual charging proposals is less pertinent to our business as a developer and operator of renewable generation and we have therefore not offered comments, but the supplementary renewables modelling is relevant to our business and we offer our comments on the report prepared by Frontier Economics and LCP in the following paragraphs.

In our previous TCR consultation response, we raised a concern that the changes to grid charging proposed per the TCR would have a significant impact on renewable generation and it is possible that existing projects will cease to be viable, resulting in closure and new projects and repowering may be put at risk. Some technologies (e.g. on-shore wind) are slowly becoming viable without subsidy in certain circumstances, but the TCR consultation proposals may make this impossible; they will certainly hinder this outcome and likely delay the point at which other technologies become viable without subsidy. These outcomes are undesirable for consumers both in terms of cost and the failure to achieve carbon targets.

We indicated that we do not support the proposals for change in the TCR consultation that affect generators because they will adversely affect distributed renewable generation. They will not facilitate an environment that will deliver significant volumes of cheap low-carbon generation and as a result will not deliver for consumers in the long-term. In addition, we believe the proposed changes, which adversely affect existing projects as well as new ones, do not comply with Article 6 of the European Union Renewable Energy Directive II which states that “support granted to renewable energy projects are not revised in a way that negatively affects the rights conferred thereunder and undermines the economic viability of projects that already benefit from support”.

## Supplementary Renewables Modelling report by Frontier Economics and LCP

The Supplementary Renewables Modelling report by Frontier Economics and LCP updates the original Ofgem TCR report economic analysis. The original report assumed renewables deployment is unaffected by the proposed TCR reforms, whereas the new modelling looks at the likely impact on the levels of new renewables caused by the proposed reform of TGR and BSUoS. The new analysis is based on 2 key assumptions, i) the total level of renewable generation does not reduce and ii) growth of solar & onshore wind remains unsubsidised so growth is reduced, and offshore wind growth is increased to fill the gap.

The results of the analysis are as follows:

	original	original	new	new
FES scenario	System cost (£bn)	Consumer cost (£bn)	System cost (£bn)	Consumer cost (£bn)
Steady Progress	-0.02	-4.52	+1.04	-3.52
Community Renewables	+0.33	-5.99	+4.03	-1.92

The results showed that the original analysis underestimated the increase in system costs and overestimated the consumer benefits of the TGR/BSUoS reform. We note that the report indicates that these results are partly driven by the assumption made that most of the renewables growth will come from offshore wind which has much more expensive grid connection costs than solar/onshore wind. However, our view, as indicated above is that the reforms will damage the viability of new onshore wind/solar, make repowering less likely and lead to early retirement of existing onshore renewables, which means that more subsidised offshore wind will be needed to meet decarbonisation targets which will further reduce the forecast benefits of the proposed TCR reform.

We would also note that our response to the original consultation focussed on the impact on the nett revenues of Falck's existing projects. This latest analysis looks at the impact of future projects rather than existing projects, but we would like to reiterate the point that consideration needs to be given to the impact on existing renewable plants as the reforms will reduce profitability, make it more likely that projects will be closed before the end of their lifetime and make the economics of repowering less attractive. We therefore think that the assumption used in the new report that the total level of renewables does not reduce is incorrect and this will further impact on the projected benefit to consumers.

Summary of comments on report by Frontier Economics and LCP

- We agree that the assumption that renewable deployment is unaffected in the original analysis supporting the Nov 2018 TCR consultation is logically incorrect and the current report should represent an improved forecast.
- The assumption in the current analysis that total renewable generation is unaffected is questionable given the negative impact of the reforms on the profitability of existing renewable generation.
- We would have liked to see the analysis with TGR and Partial BSUoS reform as well as TGR and Full BSUoS reform, as we hope that Partial BSUoS reform is still being considered as an alternate TCR reform.
- The report comments that the reduced forecast consumer benefits and increased system costs is closely linked to the difference in levelized costs between renewable technologies (i.e. the higher cost of offshore wind). We note that our comments about the understated impact on the viability of onshore wind and solar will mean that the forecast of reduced consumer benefits and higher system costs will be more than per the report.
- The assumption in the report that all the renewables growth will come from offshore wind because of current Government policy on excluding Pot 1 technologies from CFD auctions is questionable, particularly given current political uncertainty and the long-term nature of the forecasts. We would reiterate the point that the proposed TCR reforms will be very damaging to onshore wind and solar and it is imprudent to assume that all decarbonisation will come from offshore wind.
- We disagree with the conclusion on page 8 of the report that the proposed TCR reform is not responsible for higher system costs. Our view is that the reform will reduce the level of onshore wind and solar, and the need to fill the void with offshore wind results in higher system costs.
- Overall the forecast consumer benefits, which are significantly lower than originally forecast, are achieved at the cost of imposing higher costs on renewable generation. This will impact the volume of the lowest cost renewable generation and cause higher generation costs for consumers.

Yours sincerely,

Richard Dibley  
Managing Director, Falck Renewables Wind Ltd.