

Consultation on Next Steps for DUoS Reform

Independent Renewable Energy Generators Group (IREGG) response

6 December 2021

Introducing IREGG

IREGG was established in 2012 and is a partnership of independent renewable energy generators and developers as well as the manufacturer Enercon, which have together invested hundreds of millions of pounds in UK energy infrastructure – including in Scotland.

IREGG members include:

1. **Falck Renewables:** a renewable energy company with headquarters in Milan, Italy with two offices and a significant number of operational and development projects in the UK.
2. **Banks:** a County Durham-headquartered renewables business operating and developing wind and solar projects.
3. **BayWa:** a German headquartered solar, wind, and bioenergy company.
4. **ERG:** an Italian headquartered company and one of the leading European producers of energy from renewable sources.
5. **Infinergy:** an energy company, developing large, medium and small-scale onshore wind and solar PV projects in the UK, the Netherlands and Australia.
6. **Enercon:** a German based wind turbine manufacturer and one of the world's leading companies in the wind energy industry.
7. **Fred. Olsen Renewables:** a Norwegian-headquartered onshore and offshore wind business with ten operational wind farms in the UK. The group includes Scotland's Natural Power consultants and offshore specialists Fred. Olsen Ocean.
8. **Ventient Energy:** a pan-European renewable energy business and one of the largest independent generators of onshore wind energy in Europe.

IREGG's consultation response

1. Do you agree with our proposal to descope DUoS from the Access SCR and take it forward under a dedicated SCR with revised timescales?

It is a sensible decision to descope DUoS from the Access SCR and take it forward under a dedicated SCR with revised timescales.

In the Consultation on Ofgem's Minded to Positions for the Access and Forward-looking Charges Significant Code Review, Ofgem signalled it is considering the potential for a Review of Transmission charges, and pausing its current plan to impose the Scottish locational penalty charges that are currently imposed on transmission connected generation on SDG, whilst the Review is being undertaken.

A wide-ranging review of distribution network charges is clearly needed; however, it is critical, firstly, that this happens alongside or following the rest of the planned activity covered by the Access SCR. Secondly, it is vital that Ofgem ensures that the imposition of TNUoS charges to Small Distributed Generation (SDG) is paused before a separate review of DUoS, and in tandem with a broader review of TNUoS.

It is getting to the stage where investment decisions in repowering are needing to be made to currently operational wind farm sites in Scotland, and the risk of the imposition of escalating locational penalty TNUoS charges to SDG in Scotland will delay or block that investment, unless investors receive sufficient reassurance that the issue is being solved.

2. What are your views on timescales for implementation of DUoS reform? How does this interact with wider market developments and what do we need to take into account?

The only appropriate timescale for implementing DUoS reform is one which aligns it with Net Zero as swiftly as possible – as well as with broader market reforms.

It is now two and a half years now since the UK government committed to Net Zero, yet the Applicable CUSC objectives still does not reflect it. In needlessly delaying the alignment of its regulatory measures to Net Zero, Ofgem is failing to reflect the criticality of the Net Zero timeline in response the Climate Emergency. This is a false economy and Ofgem will be adding needlessly to the costs of Net Zero to consumers.

This is an opportunity to align the principles of both SCRs, Access and DUoS, with the “strategic priorities and policy outcomes” of both Westminster and the Scottish Government. Ofgem should give this due consideration and weight in its deliberations. As the CEO of Ofgem underlined to a Select Committee of the Scottish Parliament on 5 October, Ofgem should have regard to the interest of future as well as current consumers. Nevertheless, its network charging agenda engenders a false economy, to the detriment of both current and future consumers.

Reforms to the TNUoS charging regime, in particular, are essential, because at present Ofgem’s network charging agenda undermines the speed and scale of the necessary volume of deployment of additional green energy generation both for Net Zero and for the government’s commitment to 100% clean electricity by 2035, and will inflate its cost, adversely impacting consumer interests as a result. The longer alignment of regulation with Net Zero is delayed by Ofgem, the greater the adverse impact on progress to Net Zero, and the more it adversely impacts consumers, including by distorting the market giving offering credits to gas power stations that will that encourage greater dependence for longer on imported gas.

The clear objective of Ofgem’s current regulatory framework is to encourage the development of energy assets in locations close to major UK demand centres, minimising the cost of grid investment as a result. This distorts the market to incentivise a false economy, because it promotes the development of a less efficient, less cost-effective and more carbon intensive energy system, that inflates the total cost of power generation to avoid investment in networks. In parallel, Ofgem’s modelling in justifying this arrangement has been flawed; failing to take into account the inefficiencies and inflated costs created by locating renewable generation plant in sub-optimal locations, and using assumptions on planning systems and land availability that are incompatible with the evidence.

While Ofgem has stated in the Access and Forward-Looking Charges Significant Code Review Minded-To position consultation of June 2021 that it potentially recognises the need for a broader TNUoS review, it has confirmed to IREGG that this would take from five to ten years. Given that every year the distortions of Ofgem’s current charges remain adds further costs to Net Zero and retards the UK’s progress towards it, it is vital that viable “quick

fixes” to TNUoS that could resolve this distortion in less than a year are embraced. In terms of timelines, it is important that “quick fixes” and a wider review take place as a priority – a dedicated DUoS SCR is important, but should not take priority over these.

“Quick fixes” that Ofgem could take to address priority areas of reform, and which are achievable within months to better align the charging framework with Net Zero by addressing the magnitude of the charge, include:

- 1) Reducing the “Expansion Constant”, and
- 2) Flooring the Generator TNUoS charge at zero.

An effective means to help progress “quick fixes” (1) and (2), would include:

- 3) An update of the “Applicable CUSC Objectives” in Transmission Licence to reflect UK law and align them with Net Zero.

3. What areas of interactions of DUoS with wider developments in policy/industry do we need to consider in our review?

As above, the crucial developments in Government policy and wider industry thinking that Ofgem needs to consider in your review pertain to the Net Zero agenda.

Boosting the rate of deployment of substantially greater volumes of Scottish onshore and offshore wind will be vital for achieving the UK and Scotland’s Net Zero ambitions, especially the Prime Minister’s new commitment to decarbonise electricity by 2035. The government is clear on this and that of the varying possible paths to UK Net Zero, none fail to include boosting Scottish clean energy generation. Given this and the Government’s recently released Net Zero Strategy, which requires the build out of onshore and offshore renewable energy in Scotland at its “maximum technical limit”¹, it is crucial that Ofgem is aligned with the political direction of travel on Net Zero in its approach to both the wider Access SCR and any discrete DUoS SCR, so that its policies do not retard the rate and scale of buildout of Scottish wind generation needed to meet the UK’s Net Zero policy goals.

More broadly, it is important that any reforms to DUoS are in alignment with wider market reforms, such as those currently being reviewed by the ESO. This includes, specifically, any possible differentiation of the long-term investment signal from the short-term dispatch signal, as this will have material influence on the purpose and design of DUoS.

4. Have we considered all the impacts of a phased approach to delivering the original scope Access SCR?

DUoS reforms and changes to SDG cannot be implemented before a broader review of TNUoS, and should not take priority over any of the “quick fixes” to TNUoS that would better align the charging framework with Net Zero.

In addition, Ofgem will need to re-do the modelling² it published in June as part of the Access and Forward-Looking Access Review Impact Assessment to ensure alignment with

¹ BEIS’s [net-zero-strategy](#) states (P98) “Our Carbon Budget 6 trajectory suggests that we will need to build all of these technologies *at, or close to, their maximum technical limit*, to meet the twin challenge of accelerating decarbonisation and servicing increased demand. This represents a considerable delivery challenge.”

² [Quantitative analysis of Ofgem Access Options: Connection Boundary and TNUoS SDG](#)

Net Zero and to ensure that assumptions are used reflect actual government policy and UK law rather than an abstract alternative.

5. Do you have any views on our proposal to retain the scope and governance arrangements of the original Access SCR?

This is an opportunity to align the principles of both SCRs, Access and DUoS, with the “strategic priorities and policy outcomes” of both Westminster and the Scottish Government. It would be timely and appropriate for cost-effective Net Zero delivery to feature as a clear priority of any such SCR, existing and future. As the CEO of Ofgem underlined to a Select Committee of the Scottish Parliament on 5 October, Ofgem should have regard to the interest of future as well as current consumers.

In terms of practical arrangements, it is important that any Challenge Group (or equivalent) is used optimally and effectively. Members involved report ever-decreasing collaboration and transparency on the Challenge Group since spring 2020, which risks a less robust and overall poorer outcome.

Whether or not DUoS is split out into a discrete SCR, it is vital that the reviews included within the scope of the original Access SCR are undertaken in alignment with Net Zero and the strategic priorities of the UK and Scottish Governments, including the commitment to 100% clean electricity by 2035.

In addition, it is important that Ofgem proceeds with a broad review of TNUoS on a timeframe that aligns with the urgency of Net Zero. The review should be designed to incentivise a least-regrets 2050 network optimally aligned for Net Zero, rather than penalise generation for not aligning with our inherited 1950s network.

However, given that Ofgem has stated that a review of TNUoS would take a minimum of 5-10 years, this alone will not be sufficient to avoid undermining Net Zero and needlessly inflating its cost for consumers. A wider review is warranted to address the undue volatility and unpredictability of the charge, as well as the lack of cost reflectivity in the charges and the undue burden that locational penalty charges imposed on existing Scottish generation to pay for the future benefits of a Net Zero grid that will accrue to the UK as a whole. It is also necessary to revisit modelling assumptions on what constitutes consumer benefit in the Net Zero energy transition (e.g., ensuring renewable technologies can locate in the most efficient places). But given that the timeframe for such a review is too lengthy to be compatible with Net Zero at least cost, or the government’s commitment to 100% clean energy by 2035, “quick fixes” are necessary.