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11th January 2017

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Dear Sir

**A SMART, FLEXIBLE ENERGY SYSTEM – A CALL FOR EVIDENCE –
NOVEMBER 2016**

**Submission to BEIS and OFGEM by The Banks Group “BGL” – 11th
January 2017**

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1 Introduction

The Banks Group Limited (“BGL”) is a family owned, County Durham based, business employing nearly 400 people across the north of England and Scotland with a turnover of in excess of £100 million. We develop land for a variety of uses including surface coal mining, residential and commercial property, and renewable energy.

We currently have seven wind farms in operation, developed under the ROC regime and a further three wind farms about to commence construction, under the CfD regime. By 2019 we expect to be operating a wind farm portfolio of 224MW. As a business, we seek to develop sustainable projects that are in the best interests of society. Onshore wind farms provide the lowest cost solution to filling the capacity gap from low carbon energy sources.



BEIS / OFGEM have asked for stakeholder views to be provided on A Smart, Flexible Energy System. The Call for Evidence is a wide ranging consultation covering a range of varying yet interrelated topics. It anticipates a path towards decarbonisation of energy that envisages the need for low carbon electricity to source new sectors such as heat and transport as well as existing sectors such as light and power.

The wide ranging and technically detailed nature of the consultation makes it difficult for a developer like BGL to meaningfully comment on many aspects of the Call For Evidence. Furthermore, whilst BGL has a fairly good understanding of existing trading arrangements for electricity, we do not consider ourselves to be sufficiently expert to provide detailed commentary. Our comments are therefore constrained to general points only, with specific points represented through our trade bodies, Renewable UK, Scottish Renewables and Electricity Storage Network Association.

We are generally supportive of the need to transition to a decentralised flexible electricity system, but consider the changes required are significant and will ultimately require radical changes to the industry, including regionalisation of market arrangements, a significant programme of culture change accompanied by major changes to the regulatory landscape.

2 General observations

When considering this Call for Evidence, BGL has referred back to OFGEM's objectives to remind ourselves what is ultimately trying to be achieved.

"Our principal objective when carrying out our functions is to protect the interests of existing and future electricity and gas consumers. We do this in a variety of ways including:

- promoting value for money

- promoting security of supply and sustainability, for present and future generations of consumers, domestic and industrial users
- the supervision and development of markets and competition
- regulation and the delivery of government schemes.”¹

This consultation, other associated consultations and supporting evidence clearly identify that a flexible decentralised electricity system has the potential to make considerable savings for the consumer by identifying lowest cost, low regret investment options. BGL agrees and accepts the general findings of the evidence, that a decentralised flexible electricity market is beneficial for consumers.^{2 3 4 5}

This vision confirms that costs savings are achieved by deploying significant levels of intermittent electricity generation, combined with well-located storage facilities, interconnectors and a far more dynamic demand load that responds quickly to market price signals. This requires the evolution / revolution towards a dynamic interactive market where the local network, generation and supply can change dynamically.

BGL anticipates it is likely that different regions will identify different solutions for total system cost reductions. For example, demand side response in London may be far more effective at reducing all in system costs in the London region, but in Scotland deploying a pumped storage unit may be the key investment priority. This regionalisation makes it difficult to envisage the development of centralised trading arrangements that can be successfully crafted to consistently provide the right investment signal in the right region. Whilst this consultation is therefore a good progressive step forward, the technical changes proposed to existing

¹ <https://www.ofgem.gov.uk/about-us/who-we-are>

² SMART POWER , National Infrastructure Commission Report

³ Chapter 3 Moving to a low carbon grid:system flexibility and integration. Power Sector scenarios for the fifth carbon budget. The Committee on Climate Change

⁴ Whole-system cost of variable renewables in future GB electricity system. Imperial College London with RWE Innogy / Renewable Energy Systems and ScottishPower Renewables

⁵ An analysis of electricity system flexibility for Great Britain. Imperial College London and Carbon Trust.

arrangements are likely to represent sticking plasters which will quickly come off. Greater emphasis will need to be placed on creating a framework that moves quickly towards a locally deterministic model.

BGL does not have the resources necessary to provide a comprehensive set of recommendations to achieve this model, but we highlight the following areas for further consideration:

- The UK should be divided into strategic regions where regional bodies are appointed to be responsible for ensuring that “within region” objectives of security of supply, decarbonisation and lowest cost solutions are achieved.
- Regional authorities should have a greater say in assessing the energy demands and supply needs of their conurbations that comply with wider decarbonisation initiatives, and develop long term plans, for energy, storage, demand side response and distribution, in a similar manner to the process authorities are currently required to make for housing needs, and associated infrastructure requirements.
- Regional distribution companies should be free to offer for competitive auction technologies that can reduce network stress on their system, and procure services at competitive price levels. This can be in the form of demand side response, storage or embedded generation. The development of private networks should be encouraged to provide competition to the distribution companies.
- As centralised generation reduces significantly, the amount of electricity flowing through the grid will reduce, and the role of the transmission grid will effectively be increasingly viewed as a series of interconnectors between regions providing security of supply. Regions which are net importers of energy will need to become willing to pay a far greater share for maintaining the transmission system than those regions that are entirely self-sufficient for energy.

- Electricity suppliers within a given region should have supplier obligations requiring them to show that they have procured sufficient energy of a required carbon intensity, with sufficient , capacity and transmission rights for the medium term [next three to five years] , that can cope with a 1 in [20] cold weather /high demand event.
- A central body will be required to have oversight of regional strategies and ensure that centralised functions of transmission network capacity, interconnectors and large scale generation units are sufficient to achieve UK system wide security of supply and decarbonisation objectives.

Developing regional frameworks and localised market pricing signals for all this radical change is exceptionally challenging. Piecemeal change is likely to fail without a clear vision of the long term enduring model.

We see this today. The wholesale market is now subject to so many interventions (ROC regime / CfD regime / Capacity market regime / Carbon price floor / Carbon markets), that it is currently difficult to describe exactly what the actual economic good is that is being bought and sold on the wholesale market. This contrasts starkly with the market prevailing when NETA was introduced, where the only way of securing any form of economic rent for electricity generation / capacity was through the wholesale market. Assuming therefore that the current wholesale market in 2017 can be neatly tweaked to create the correct investment signals for a wide range of varying localised investments necessary to deliver a regionalised flexible market strikes BGL as highly unrealistic.

BGL has significant cause for concern that governments and regulators are ill equipped to deliver successfully on the challenge ahead for good reason. The wholesale market is not signalling the need for any further generation investment, which is why governments are intervening through capacity market auctions and CfD auctions, and doing so ineffectively, given the degree of investor uncertainty prevailing throughout the UK market.

The Climate Change Committee⁶ has clearly identified a significant capacity gap to 2030. It is demonstrably in the interests of consumers to deploy lowest cost generation solutions first to fill this capacity gap. However, the combination of wholesale markets and government led initiatives now **prevents** the deployment of consented onshore wind farms and solar arrays - the lowest cost form of any generation. Following the end of the ROC regime and the inaugural CfD auction, no further onshore wind or solar is anticipated to be deployed, despite it being cheaper than any other technology. This is a perverse market outcome at a time where a significant capacity gap is identified – representing a clear failure of markets, competition and regulation. It is difficult to see how OFGEM and BEIS are acting in the interests of consumers by not strongly promoting the deployment of these technologies where acceptable planning consents have already been secured. Regulators and governments are knowingly placing an additional burden on the consumer by the existing suite of market arrangements and government policies. BGL therefore asks OFGEM to consider supporting the following amendment to the CfD regime:

- where a supplier procures zero carbon energy from sources commissioned after 2020, and for which that generation source has been awarded no associated government subsidy, then that supplier shall be exempt from CfD costs to the extent of the subsidy free generation procured.

This amendment encourages competition between suppliers to procure carbon sources that can be procured for a lower cost than achieved through government auctions. It is dependent on suppliers having to comply with the supplier obligations referred to previously in this response.

In summary, BGL supports the proposal to transition towards a flexible energy market. BGL considers the challenges faced to achieve such a transition go significantly beyond the proposals put forward in this Call For Evidence. BGL considers that greater emphasis will need to be placed on regional decision making, and has put forward a range of proposals in this

⁶ <https://www.theccc.org.uk/wp-content/uploads/2015/10/Power-sector-scenarios-for-the-fifth-carbon-budget.pdf>. Page 32 The generation gap.

regard. Finally BGL has proposed market solutions to incentivise subsidy free deployment of onshore wind and other technologies that should result in lower bills for consumers whose supplier is willing to support such technology.

Yours faithfully

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