

REA response to Ofgem Targeted Charging Review consultation including ending grid fee double charging for storage operators

The Renewable Energy Association (REA) is pleased to submit this response to the above consultation. The REA represents 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 700 corporate members of the REA, making it the largest renewable energy trade association in the UK, including over 100 energy storage members, also making it the biggest such body for energy storage in the UK.

Introduction

We have called for a Significant Code Review (SCR) of grid charges for some time and this consultation is therefore welcome. Any SCR must however be sufficiently broad in scope to make it worthwhile – it must include all elements of the Embedded Benefit (EB) for example, otherwise it will not examine the grid charging conditions in a holistic manner - this being subject to a separate, isolated consultation.

[This consultation](#) has two main aspects:

- Whether Ofgem should launch a 'Significant Code Review' on various elements of the generator charging regime, and
- Changing the grid charging regime for energy storage projects, to prevent double charging of fees.

We welcome the scope of the possible Significant Code Review, and note that the sooner the UK can install meaningful levels of energy storage and flexible capacity, the sooner we can start to realise the savings projected from the technologies.

Summary of Main Issues

This consultation is in our view very timely and is right to both examine the possibility of launching an SCR and identify double charging of grid levies as a major issue which can be resolved relatively quickly.

Our members are affected both by changes to embedded benefits and to the charging regime for storage devices, so we have a significant interest in this area. We especially welcome the move to address this issue prior to the formal response to the BEIS/Ofgem Call for Evidence on a Smart, Flexible Energy System, as timing is a crucial factor in the successful development of the energy storage industry.

Storage should be treated on a level playing field with other users of the grid network, such as interconnection capacity, which does not pay some of the charges faced by storage devices.

As set out, we are very supportive of these principles however it should be noted (particularly for evidence when relating to final levy consumptions) that storage

devices are a final consumer of energy in terms of their net import and export throughout a day, due to system losses.

1. Need for a Significant Code Review for grid charging methodologies

The REA strongly supports the case for an SCR of grid charges, as proposed. Previously changes to the grid charging regime have been made in isolation and not considered 'in the round' alongside other priorities and workstreams. In addition they have been progressed by industry code groups which have a particular focus and small membership. Therefore the 'bigger picture' has frequently been missed and this will become even more critical as the electricity system decarbonises and adds more flexible capacity such as energy storage and Demand Side Response.

An SCR would provide an opportunity to consider the issues holistically and in a more 'joined up' manner. As part of such a review, all elements of the Embedded Benefit must be included in this in order to consider the complete picture. Any outcomes of the current 'minded to' consultation on the CMP 264/CMP 265 (TNUoS Demand Residual (TDR) element) of the EB should therefore be put on hold while it is considered alongside these issues ([Embedded Benefits: Consultation on CMP264 and CMP265 minded to decision and draft Impact Assessment](#)).

The proposed timescale and delivery process appear to be practical and we support this as an adequate amount of time is required to fully consider the possible changes.

2. Proposed changes to grid charges for storage devices

We support the proposal to change the way grid charges are levied on storage devices. The double charging of levies has been a barrier to storage devices for some time and is an example of an issue that can be addressed relatively straight forwardly.

We have pushed for action to develop the storage market to be accelerated, and therefore welcome the proposal to make these changes prior to the official response to the BEIS/Ofgem Call for Evidence on a Smart, Flexible Energy System, which examined this issue among others. Waiting for this outcome would have unnecessarily delayed progress for the industry.

Draft Responses to Specific Consultation questions

Question 1: Do you agree that the potential for residual charges to fall increasingly on groups of consumers who are less able to take action than others who are connected to the system, is something we should address?

Yes. More generally, the grid charging regime is in need of updating and reviewing and this review, and an SCR would provide the opportunity to do this in a holistic manner, providing all elements of the embedded benefit are included in that review. We believe there is a need to reduce distribution connected fossil fuel powered reciprocating plant and protect vulnerable customers who are unable to mitigate these charges. However, this objective would be better met by specifically

targeting those forms of generation rather than by implementing measures impacting all connected users.

Question 2: If so, why do you think, or do not think, action is needed?

The UK is in an historic transition to a low carbon, more flexible energy system, and generation sources have changed in the past decade (over 25% of UK electricity now coming from renewable sources). The codes and governance regimes have not changed to reflect this however and therefore an SCR would provide the opportunity to consider all the issues 'in the round'. Existing code governance regimes only offer the possibility of considering and addressing issues in a piecemeal fashion and therefore this overarching review is necessary to deliver a 'joined up' picture and actions to advance the system as a whole.

Question 3: We are proposing to look at residual charges in a Significant Code Review. Are there any elements of residual charges that you think should be addressed more urgently? Please say why.

No. All the issues and considerations must be looked at together as a whole, examining one issue separately would not result in a joined up approach.

Question 4: Are there elements of the approaches in other countries that you think could be appropriate for GB residual charges?

There are lessons from the USA which could be applied to promoting energy storage in the UK. For example certain state grid network operators have been instructed to re-write grid access rules and charges to accommodate energy storage.

Question 5: Are there other approaches that you know about from other jurisdictions, that you think offer relevant lessons for GB?

There are lessons from California which could be applied to promoting energy storage in the UK.

Question 6: Do you agree that our proposed principles for assessing options for residual charges are the right ones? Please suggest any specific changes, or new principles that you think should apply.

There is a considerable unexamined issue at stake. The cause of the size of the residual charge (ie National Grid's allowable revenues as TSO) should also be part of the wider review. The impact of changes to the make-up of the residual charge should be reviewed by Ofgem, preparing the ground work for the wider changes needed. We understand this is a matter of pricing controls, but the underlying assumptions and understanding can be reviewed as part of an SCR.

The wider consideration of Government priorities in the form of decarbonisation should be a major contributing factor.

The principle of fairness needs to include the impact on companies who have already made investments in (renewable) self-supply and demand management activity, which often offer marginal return on investment. For an energy user, it takes time and effort understanding charges and passing these messages through complex organisations. Making changes takes significant commitment of resources for a business and alters the return on investment.

This also creates uncertainty for investors more generally in the UK energy sector- which could be very damaging.

Question 7: In future, which of these parties should pay the transmission residual charges: generators (transmission- or distribution-connected), storage (transmission- or distribution-connected), and demand, and why? What proportion of these charges should be recovered from each type of user?

All types of transmission-connected user should pay these charges, but based on actual use of and impact on the system. Appropriately located storage relieves the load on the network so should be rewarded not charged and policy should be designed to incentivise new, low carbon capacity.

Question 8: In future, which of these parties should pay the distribution residual charges: generators (transmission- or distribution-connected.), storage (transmission- or distribution-connected), and demand, and why? What proportion of these charges should be recovered from each type of user?

All types of distribution-connected user should pay these charges, but based on actual use of and impact on the system. Appropriately located storage relieves the load on the network so should be rewarded not charged and policy should be designed to incentivise new, low carbon capacity.

Question 9: Do you support any of the five options we have set out for residual charges below, and why?

There are differing views among our membership. There is a strong case for no change to be made at all at this stage.

Of the options for change, although there is no strong consensus either way, our members on balance favour the hybrid approach (Option E) which would combine a fixed charge linked to connected capacity for non-domestic connections, and a fixed charge for domestic consumers.

Question 10: Are there other options for residual charges that you think we should consider, and why?

None proposed.

Question 11: Are there any options that you think we should rule out now? Please say why.

Arguably option D (Gross kWh charging) could be ruled out due to the complexity and cost for generators with multiple sites.

Question 12: Do you think we should do further work to analyse the potential effects of the charging arrangements for smaller EG (called 'embedded benefits')?

Yes. Potential effects of such charging arrangements are crucial and cannot be looked at in isolation (As with the current 'minded to' CMP 264/265 review), instead they must be looked at in relation to the bigger picture and full potential impacts as part of an SCR.

Changes must be looked at in the light of every element of the energy 'trilemma' – not least of which the need to provide a low carbon, flexible energy system.

Question 13: Do you think changes are needed to the current charging arrangements for smaller EG, and when should any such changes be implemented?

Please see the REA's response to Ofgem's 'Minded to' decision on CMPs 264 & 265. We do think changes are needed to the current charging regime, but not as proposed. Smaller EG provide an inherent benefit to the system in most locations and

this must be recognised. Any changes to the current regime should only be implemented as part of the SCR.

Question 14: Of the embedded benefits listed in our table, do you think that any should be a higher or lower priority?

Clearly the TDR element is a very important element and by considering it separately to the other elements of this TCR/possible SCR it risks a piecemeal approach on this important area.

Question 15: Do you think there are other aspects of transmission or distribution network charging which put smaller EG, or any other forms of generation or demand, at a material disadvantage?

At the distribution level, generators connected to that network do not have rights to an unconstrained connection (and are not compensated in the same way as generators connected to the transmission network are). Going forward the amount and frequency of constraints increasingly represents significant risks to the generators on the distribution network more, when compared to generators on the transmission network. The cost of connecting to a distribution network for smaller generators should not be overlooked. Often small generators pay substantial sums to enhance the distribution network in the area they connect to.

Question 16: Do you agree with our view that storage should not pay the current demand residual charge, at either transmission or distribution level?

Yes. Storage should not be liable for this charge- it may reduce impact on the network entirely at certain locations.

Question 17: Do you agree with our view that storage should not pay BSUoS on both demand and generation?

Yes. We support the proposal to change the way grid charges are levied on storage devices. The double charging of levies has been a barrier to storage devices for some time and is an example of an issue that can be addressed in a relatively straight forward way.

Question 18: Which of the BSUoS approaches described is more likely to achieve a level playing field for storage?

The proposed approach of storage devices only paying BSUoS charges once is our favoured option.

Question 19: Do you think the changes in this chapter should be made ahead of any wider changes to residual charging that may happen in future? Do you agree with our view that these changes should be implemented by industry through the standard code change process?

Yes. There is widespread industry agreement that this is a barrier to storage devices and can and should be addressed very quickly. The benefits inherent in having more energy storage on the system can be unlocked relatively quickly through actions such as removing these excess charges, representing a win-win.

Question 20: We would welcome your thoughts on the potential make-up of a CCG. Please refer to the potential role, structure, prioritisation criteria and assessment criteria.

There is a need to avoid the limitations of the current industry code governance panels (eg the CUSC) - trade associations and industry representatives from smaller generators, DSR, large energy users and storage must all be given specific representation as part of the process.

Question 21: Do you agree with our proposed delivery model, including its scope?

This appears to be reasonably robust and the scope appears to be suitable, though as noted there is a need to ensure that the review includes all aspects of the Embedded Benefit.

Question 22: Do you agree that our proposed SCR process is most appropriate for taking forward the residual charging and other arrangements for smaller EG discussed in this document?

Yes. There is a need to consider these issues holistically and 'in the round' therefore they should, together with the TnUOS Demand Residual (subject to the current 'minded to' consultation on CMP 264 & 265).

REA, May 2017