**Getting more out of our electricity networks by reforming access and forward-looking charging arrangements**

*NextEnergy Capital response to consultation, September 2018*

**Introduction**

NextEnergy Capital welcomes the opportunity to respond to this consultation. The energy system is undergoing a radical transformation, with the advent of new technologies and how they interact with the system. Due to the scale of changing consumption patterns the energy system will require a considerable redesign, particularly in relation to how energy is supplied to consumers. As such NextEnergy Capital supports Ofgem’s decision to consult on how the current approach to allocating and using capacity, as well as charging for the associated network usage, might be changed in order to meet these challenges.

In this response, NextEnergy Capital outlines its thinking and views on the case for change as outlined by Ofgem; the specific proposals for the scope of review of access arrangements; access for both small and large users; and improving the allocation of access rights. Views on the significant code review and the leadership of that review are also included.

This document also outlines NextEnergy Capital’s position that any changes to network access cannot be retroactive as such changes would negatively affect the terms on which investments into any asset or technology within a 30 year period have been made. Retroactive changes of this nature would thus have a negative impact on investor confidence and would significantly increase the cost of private sector investment in the future.

**About NextEnergy Capital**

NextEnergy Capital is one the leading international investment and asset managers focussed on the solar sector. Headquartered in London, NextEnergy Capital Group manages over 1,700 solar plants around the globe, which equates to more than €5 billion worth of investment. In the UK, the NextEnergy Solar Fund is listed on the London Stock Exchange and has invested over £894 million into operating solar assets, amassing a portfolio of 87 operational sites, with a total capacity of 691 MW.

**Answers to consultation questions:**

***Question 1: Do you agree with the case for change as set out in this chapter? Please give reasons for your response, and include evidence to support this where possible.***

NextEnergy Capital agrees with the case for change as outlined by Ofgem. New energy technologies as well as changes to consumption trends means that the energy system will require a considerable redesign, particularly in relation to how energy is supplied to consumers.

In particular, the continued growth of energy capacity from renewable sources as well as the deployment of new low carbon technologies which is needed in order to achieve decarbonisation – and also the growing deployment of these technologies without subsidy – will require a much more efficient use of grid infrastructure as well as cost reductions on the access tolls.

However, NextEnergy Capital opposes any retroactive changes, namely those affecting the terms on which investments into any asset or technology within a 30 year period have been made. Retroactive changes of this nature would have a negative impact on investor confidence and could increase the cost of private sector investment in the future.

***Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.***

NextEnergy Capital agrees with the proposal to review access rights for small and large users, as well as to improve the allocation of access rights. Access rights conditions are not binding, and both obligations and rights under the system create a degree of uncertainty. As such, access rights and offers need to be reviewed so that they may consider co-location of differing types of energy generation. Finally, access rights coupled with a bespoke definition to each type of energy generation should be considered in order to enhance renewable energy connections.

***Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:***

*(b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?*

The proposed changes in relation to firm/non-firm and time-profiled access should be implemented. Further clarity on the curtailment risk profile is needed, especially in cases when access rights are given in order to adjust for technology. Renewable generators have specific time-profiles and access rights, and as such Ofgem should consider this curtailment risk profile on both the cost and service offering of renewable generators. Access rights should also be less restrictive and include optionality for multiple technologies and easier amendments. If there is a need for curtailment, then renewable generation ought to be compensated in the same way as conventional energy generation (e.g. gas).

*(c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?*

These options would be beneficial – as would the enhancement of repowering and revamping energy generation sites – leading to an increase in the financial valuation of investment for these assets. Furthermore, visibility on the access rights would also contribute to better management of the required grid maintenance works. Lastly, short term access rights with extension options would reduce uncertainty over the investment and positively contribute to the financing of such projects.

*(d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?*

Distribution is a considerably more important issue from the perspective of renewable energy, and considering the overall trend of growth in renewable energy, distribution will likely retain that importance in the future. However, the impacts on transmission also needs to be considered.

***Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.***

Technology and capacity charges should also be considered, due to their impact on supply as well as the grid stabilisation and management required as a consequence of these concepts.

***Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:***

*(a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?*

It is necessary to improve queue management in order to enhance decarbonisation, as well as enabling the connection of subsidy free renewable energy generators to the grid.

*(b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?*

NextEnergy Capital agrees with this proposal.

*(c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?*

The area outlined in paragraph 3.45 (a) is already in place as described in the consultation document. On the other two points raised relating to improvement of increasing efficiency and securing the quicker amortisation of the connection costs, NextEnergy Capital supports these proposals.

***Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.***

If a Significant Code Review (SCR) is being planned by Ofgem, the proposals as outlined for the scope of review on forward-looking network charging around Distributed Use of System (DUoS) charging, connection charging boundary, Transmission Network Use of System (TNUoS) and Balancing Services Use of System (BSUoS) charges should not be changed at this point. These should instead be wrapped up in the wider SCR, otherwise there is a danger of damaging investor confidence twice, due to the potential for multiple or repeated changes to the regulatory environment.

The review should be structured so that it is not considered to be retrospective in nature, as this would also have a negative impact on the financial assumptions used by investors in relation to existing distributed generation.

The granularity on the DUoS charging methodology (Common Distribution Charging Methodology – CDCM) should be increased in order to facilitate a better understanding of the charges and their impact. Improvements to the DUoS charging methodology signal (Extra High Voltage Charging Methodology – EDCM), would allow for further predictability and forecasting, which can be combined with privative maintenance in order to ensure greater efficiencies.

***Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.***

Due to the existing constraints on the distribution network and high upfront reinforcement cost on new connections, the distribution connection charging boundary should be reviewed.

***Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.***

The review proposed as part of this consultation should be jointly led by Ofgem and industry. This will ensure that the review is balanced and full visibility of the market situation and market interests are upheld throughout the review process.

The preferred route for this review is Option A, as this ensures that Ofgem will act on behalf of small users and consumers. In relation to large energy generators, the review and any proposed changes should be led by industry, as it is better placed to understand and consider the needs of large scale energy generation.

***Question 12: Do you agree with our proposal to launch an ‘Option 1’ SCR for areas of review that we lead on? Please give reasons for your view.***

See response to question 11.

***Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.***

NextEnergy Capital supports the introduction of a licence condition as outlined in this consultation. The introduction of a licence condition will increase efficiency in the process. Additionally, the proposed changes would benefit the future implementation of the license condition and allow for a better representation of the users’ interest.

***Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.***

The draft wording of the licence condition outlined in Appendix 5b appears to be comprehensive in relation to both the process and condition requirements. However, the consultation and any information to be provided to affected parties should be included as part of the obligations and process.

***Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?***

The short term nature of these timelines would likely be a challenge, as they could negatively affect both the development and deployment of subsidy free projects in the short term.

***Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?***

The Solar Trade Association (STA) is best positioned to lead and coordinate the response from the solar PV industry. The membership of the STA range from small installers to large scale asset owners, making the STA the ideal body to convey the range of views from across the solar industry.

Additionally, as a significant proportion of the 15 GW of solar generation that is currently deployed in the UK is owned by institutional investors it is imperative to ensure the views of these organisations are accounted for. The views of the installers of smaller residential, commercial and industrial solar generation should also be sought as part of any stakeholder engagement undertaken by Ofgem’s review process.