

RIIO-2 SECTOR SPECIFIC METHODOLOGY

Response on behalf of the Solar Trade Association

About us

Since 1978, the Solar Trade Association (STA) has worked to promote the benefits of solar energy and to make its adoption easy and profitable for domestic and commercial users.

A not-for-profit association, we are funded entirely by our membership, which includes installers, manufacturers, distributors, large scale developers, investors and law firms.

Our mission is to empower the UK solar transformation. We are paving the way for solar to deliver the maximum possible share of UK energy by 2030 by enabling a bigger and better solar industry. We represent both solar heat and power, and have a proven track record of winning breakthroughs for solar PV and solar thermal.

Respondent details

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Introduction

We welcome the opportunity to comment on these proposed changes to the RIIO framework. This response reinforces the messages we put forward in our previous consultation response submitted in May 2018 as well as the points made in the Flexibility First open letter to Mr Dermot Nolan (14 March 2019), to which we are signatory.

It bears re-emphasising that we are deeply concerned by Ofgem's disjointed and disruptive approach to network charging reform, with the SCRs (Targeted Charging Review as well as the Network Access and Forward-Looking Charges Review) being undertaken in isolation, and with both work streams being distinct from the RIIO2 process. The inherently interlinked nature of these review processes is highlighted throughout the consultation document, e.g.:

One important interaction is that any change to the connection charging boundary at distribution level would affect the allowed revenue which DNOs recover from all customers under the RIIO price control, rather than directly from a connecting customer. We aim to align any change in this area with the start of RIIO-ED2, with the direction confirmed ahead of the RIIO-ED2 sector specific methodology decision so that DNOs can reflect this in their Business Plans.

The decision to examine the RIIO framework for electricity distribution networks in isolation both from the other RIIO elements and from these SCRs will in our view prevent whole-system benefits from being appropriately analysed, and thus less likely to be achieved.

The lessons from the previous price control are important and the STA welcomes the sensible inclusions of shortening the price control period from eight to five years, the adjustment mechanisms to reset allowances and targets, as well as mechanisms to protect against unexpectedly high or low returns. We reiterate our previous call for network operator revenues to be based on achieving operational objectives, rather than a Regulated Asset Base. There should be strong emphasis on network operators developing dynamic local markets in order to achieve their objectives. There is frustration across the industry at a 'trials culture', with too much emphasis on pilot projects when the procurement of smart services needs to be mainstreamed. To this end, we support Sustainability First's recommendation that a comprehensive, system-wide low-carbon incentive be introduced within RIIO2, encompassing connection and integration of low-carbon generation, as well as the facilitation of demand reduction and flexibility.

“Giving Consumers a Stronger Voice”

The proposal that *“the views of [consumer] groups, on both the Business Plan and ongoing commitment to stakeholder engagement, will inform our assessment of company Business Plans and the allocation of any associated financial reward or penalty”* is an appropriate suggestion. However, given that similar commitments to stakeholder engagement are ostensibly at the heart of so many other Ofgem work streams, we question whether this will lead to any discernible impact. For example, the Targeted Charging Review engaged consumer focus groups in the process of reaching their minded-to position. The TCR documentation indicates that the clear conclusions drawn from these stakeholders were ignored, with the minded-to decisions ultimately completely contradicting their views. **The weight given to consumers’ input must be established at the outset, along with clear benchmarks for success, if this is not to be a similarly futile exercise.**

“Reflecting what Consumers Want” and “Value from Networks”

The consolidation of the inadequate six output categories towards three outcomes-driven categories is a welcome and important simplification, and one we anticipate will bring greater clarity to network operators and stakeholders. We also welcome the commitment to ensuring the realities of the low-carbon smart grid are reflected:

Network companies must enable the transition towards a smart, flexible, low cost and low carbon energy system for all consumers and network users

This focus on the environmental outcomes is in line with our previously stated position that network operators ought to earn revenues based on achieving operational objectives, rather than a Regulated Asset Base, in particular on customer service, enabling electricity supply decarbonisation, and network utilisation factors as well as Sustainability First’s recommendation that a comprehensive, system-wide low-carbon incentive be introduced within RIIO2, encompassing connection and integration of low-carbon generation, as well as the facilitation of demand reduction and flexibility.

Specific actions to support the integration of low-carbon generation at the transmission network level could include:

- A commitment to reducing curtailment actions that cut output from weather-dependent renewables through further improvement to wind and cloud-cover forecasting, with yearly precision targets for the duration of the price control period
- A commitment to aligning planned network infrastructure maintenance schedules with those of the DNOs to the greatest extent possible, with the target of avoiding outages that would adversely impact output from solar PV. DNOs typically prefer to undertake network infrastructure maintenance actions during the summer when the weather is optimal, but this has severe impacts on the output of PV in GB, causing an estimated £10 million in losses to the sector (or 1% of total production) each year. The Solar Trade Association’s 2018 Best Industry Practice Manual on Network Outage Constraint Management, endorsed by UKPN and WPD,

sets out a detailed protocol for ensuring effective communication between DNOs and customers regarding network outages, and proposes a range of possible mitigation actions (e.g. working overnight rather than during the daytime, giving generators the option of investing in additional switchgear or other equipment to mitigate the impact of a network outage. We would strongly encourage that a similar approach be explored by National Grid with regard to transmission network maintenance. It is our understanding that National Grid and SSEN have successfully aligned their respective planned maintenance schedules for the coming two years so as to minimise disruptions to customers, and we would strongly encourage the regulator to make this practice mandatory across the sector.

“Enabling Whole System Solutions”

This prioritisation of whole system solutions is a welcomed shift in Ofgem’s approach. Previously, the STA has called for an analysis of the system wide value low-carbon sources of generation can provide to the grid to ensure that both the benefits and costs of such technologies are reflected adequately in core decision making. This would be similar to reports previously commissioned by Ofgem such as the Imperial College London report ‘Value of baseload capacity in low-carbon GB electricity system’¹ (of which the first Key Finding reported that ‘increasing system flexibility brings substantial savings in total system cost’). Through this analysis short term benefits compared to longer term efficiency must be incorporated fully. This oversight has often led to suggested reforms that bring about short term consumer benefits omitting the foresight required to drive long term investment in low carbon generation and flexibility services required to meet our environmental targets. Ultimately, the consumer must be at the heart of any ‘whole system’ approach. We recommend that Ofgem focus on enabling the delivery of consistent reductions in the carbon intensity of electricity, in line with the Government’s legally binding target of reducing carbon emissions 57% below the 1990 level by 2030, *at the least cost to energy consumers*. It is also important that Ofgem takes a multi-vector approach that enables the effective integration of heat, transport and electricity. Relationships between these vectors will need to become much closer in a low-carbon world, with potential for delivering greater consumers benefits. The exclusion of distribution companies as part of this sector specific consultation poses a risk to the whole system benefits not being appropriately assessed. Specifically, the definition of the role of a “DSO”, and the outcomes of the SCR may have significant impacts to the ESO/TO funding model.

“Driving Innovation through Competition”

The Solar Trade Association supports a more robust innovation funding framework, and the approach to encouraging more innovation as ‘business as usual’ is strongly supported. The current “siloed” approach to rewarding network companies for performance within discrete categories, or for participation in one-off pilot projects, has failed to deliver meaningful improvement at the whole-system level for grid customers or consumers. We need a comprehensive, system-wide approach, engrained within the business model of DNOs – not with the goal

¹See: https://www.ofgem.gov.uk/system/files/docs/2018/12/value_of_baseload_capacity_in_low-carbon_gb_electricity_system_2018.pdf

of demonstrating one-off viability of a particular flexibility or storage technology - but to enable system-wide transformation. The distributed energy industry is already highly innovative, but it is struggling to find markets for its services. It is this issue that Ofgem must address as a priority to unlock innovation. It is also important that flexibility is considered at all decision points (as opposed to just reinforcement decisions) as this would further flexibility being considered as a BAU activity.

However, our concerns remain with the funding model's approach to BAU. Funding for a project, or a single event will not lead to a dynamic competitive process through the price control period, and would result in uncoordinated change. Introducing a robust overall framework, something along the lines of a "flexibility market" that could take place every day, not every year should be prioritised.

We strongly disagree with the proposal to further explore potentially recovering innovation funds from BSUoS. This would be a wholly inappropriate and counter-productive use of these funds.