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Thursday 11<sup>th</sup> July 2019

**RE: Future Charging and Access programme – consultation on supplementary information and analysis to November 2018 minded-to decision on the Targeted Charging Review**

Thank you for this opportunity to respond to your consultation letter on updates to your minded-to decision regarding the Targeted Charging Review (TCR). Enercon - UK is the UK arm of Enercon GmbH; a wind turbine designer, manufacturer, installer and servicer in over 40 countries. To date, Enercon has installed over 50GW of wind turbines worldwide, including 1.3GW in the UK. Enercon's vision and mission is 'Energy for the World'.

As a company committed to the ongoing deployment of onshore wind in the UK, we, along with many other members of the UK renewables industry have significant concerns about Ofgem's original minded-to position on the TCR. Whilst we understand the need for the network charging regime to be fair, cost reflective and fit for the 21<sup>st</sup> century, we do not believe that your minded-to positions around BSUoS reform in particular are the right solution, stemming as they do from an overly narrow view of the UK electricity system, and with the supposed 'benefits' to consumers being based on flawed analysis.

As has been noted by multiple other parties, these reforms could significantly delay the introduction of subsidy-free renewables in the UK and damage investor confidence in the UK still further. Whilst we accept that Ofgem should aim to be technologically neutral, we would argue that such an outcome is not consistent with the statement from Dermot Nolan regarding the need for your regulatory responsibilities to extend to future generations by supporting the transition to net-zero emissions.

Our concerns with Ofgem's minded-to position are as follows:

1. The use of National Grid's Steady Progression and Community Renewables scenarios as the basis of your cost-benefit analysis.
2. An overly narrow framing of the issue of distortions between different generation types automatically precluding more efficient solutions than those you propose.

However, we do wholeheartedly agree with the conclusion of the BSUoS Taskforce, and believe that its conclusions represent the best way forward for Ofgem to enact BSUoS reform

## **The use of National Grid's Steady Progression and Community Renewables scenarios as the basis of your cost-benefit analysis**

We question why these scenarios form the basis of your analysis; whilst both are potential scenarios of future capacity mixes, there is no reason to believe that either represent an accurate projection of what the UK generation mix will actually look like. The Steady Progression scenario is not compatible with our legally binding carbon reduction targets, and the Community Renewables Scenario is not reflective of the UK government's policies towards onshore renewables. Your analysis, particularly in the CR scenario is based on an artificial, unrealistic and sub-optimal (from a network charging perspective) generation mix, so your reform's benefits cannot be used to justify changes in the real world. The main benefit in this scenario an increase in CCGT generation, justified on the back of lower carbon emissions vs embedded gas generators. However, this ignores the increased carbon emissions that would be created in the real world, as onshore renewables fail to deploy as a result of your reforms, whilst the analysis blithely assuming that they will have access to higher CfDs to compensate.

Whilst we are happy to see that the original irregularity in carbon values has now been rectified, the revised analysis is still based on the same unsuitable FES scenario capacity mixes, and its conclusions are equally flawed as a justification for reform in the real world.

## **An overly narrow framing of the issue of distortions between different generation types automatically precluding more efficient solutions than those you eventually propose.**

We believe that the minded-to positions of the TCR have been driven by an overly narrow framing of the fundamental changes that are occurring in the UK generation mix. Principally that the only driver of changing network flows comes from the increase in embedded generation in the UK. Thus, the distortions are framed only as a Transmission vs Embedded Generation issue, and the proposed changes focus on increasing the costs on embedded generation, to treat it more similarly to transmission connected generation.

This analysis fails to engage properly with the growth in interconnectors in the UK market, with capacity potentially reaching 20GW by the middle of the next decade. These interconnectors do not themselves pay BSUoS, and allow greater access to the UK market for European generators, which also do not generally pay balancing costs. This distortion places UK generators at a disadvantage relative to generation sources in other markets and would lead to sub-optimal power flows between markets as price signals are distorted. Interconnectors will also influence BSUoS rates, as they provide no inertia and represent potential largest infeed losses, which will require actions from National grid to manage RoCoF etc. In this context, a more equitable position would be to remove BSUoS from UK generators altogether. Together with removing the BSUoS embedded benefit from distribution connected generators, this would also serve to remove the distortions between

transmission and distribution connected generators in the UK. We believe that the conclusions of the BSUoS taskforce support such an arrangement.

### **Balancing Services Task Force Findings**

We welcomed the decision by Ofgem to set-up the Balancing Services Task Force as an opportunity to investigate the signals and distortions that BSUoS charging can have on the wholesale market.

We agree with the Task Force's conclusions regarding deliverables one, two and three, along with a significant majority of respondents; BSUoS does not and cannot provide an effective forward-looking signal in its current format, particularly as it is levied on both generation and load.

Furthermore, any attempts to make any particular elements more cost reflective would prove incredibly complex, while not serving to reduce the volatility in the residual elements. Such an arrangement would also risk duplicating signals from other network charges.

We agree with the Task Force that BSUoS should be treated wholly as a residual, cost recovery charge. We also note Ofgem's position that residual charges levied on generation are a market distortion. We would therefore suggest that Ofgem fully accept the recommendations of the taskforce, and act to remove BSUoS from transmission connected generation, whilst removing the embedded benefit that distribution generation currently receives. This would ensure parity in balancing costs between all forms of generation in the UK and allow wholesale markets to operate more efficiently.