

Via email to: TCR@ofgem.gov.uk

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30th September 2019

Dear Andrew,

Ref: innogy's response to the consultation on renewables sensitivity analysis in the Targeted Charging Review (TCR)

Innogy Renewables UK Ltd, as a developer and operator of over 2 GW of renewable generation located on both the transmission and distributed networks, and owner of Belectric Battery Storage Ltd welcomes the opportunity to respond to this consultation. This is a non-confidential response.

Wider system modeling – renewable sensitivities

We are very pleased that Ofgem have decided to undertake this sensitivity analysis. We agree that there will be a detrimental impact on the expected deployment of renewables should the TCR be implemented and that this will affect the benefits case of the proposed package of reforms. However, we believe the newly published analysis is over-simplified and that Ofgem should reconsider its limitations in relation to current government policy.

We would like to propose a few areas for further review to improve robustness, but first we wanted to highlight some general views on the TCR reforms in general at this time.

Since the analysis was undertaken the UK has set legally binding targets to deliver Net Zero by 2050. Therefore, it seems no longer appropriate to continue to use the Steady Progression FES18 scenario as the central case and Community Renewables as the alternative, given that they do not reflect the new legally binding commitment. If Ofgem choose not to change this for the final impact assessment it should be clearly explained why the central case does not comply with the UKs legislated decarbonization position.

In addition, LCP/Frontier's latest assessment of system costs – a measure of overall system efficiency (and arguably long-term consumer benefit) – are significantly increased from the

original analysis (by £4bn NPV in the Community Renewables scenario), which is more than twice the magnitude of the reduction in consumer costs (£1.92bn). This is a very different balance than in the original analysis. The original analysis could argue that substantial consumer cost savings were made in exchange for a correspondingly lower increase in system costs. This is no longer the case. We ask Ofgem to address this when making final decisions, as Ofgem's goal in the TCR review should be to ensure the best overall outcomes for the future consumer.

The areas that we would like Ofgem to consider for further review are:

- Rate of renewables drop-out,
- Offshore wind capacity cap and further impacts,
- Sensitivity to BSUoS reforms,
- Carbon values and emissions projections.

Rate of renewables drop-out

We welcome Ofgem's assumption in the analysis that the level of renewables will be lower as a result of the package of reforms under the TCR. This is particularly true if some grid connected renewables (eg onshore wind) remain unsupported by Contracts for Difference (CfD).

Frontier/LCP assume a drop-out rate of 50% in their analysis against the FES18 scenarios. LCP/Frontier rejects Oxera's analysis on the basis that they think it will be 'highly unlikely' and that 50% drop-out rate is 'more realistic'. However, there is little justification or explanation of how this figure has been arrived at. Is LCP/Frontier assuming that half of the onshore renewables capacity in the FES18 scenarios will build and the remaining 50% will not? If so what is the calculation behind this? The cost to **all** renewables sites will increase, which given the tight margins on these projects in a subsidy free world and very limited PPA market, raises doubts on how a significant volume such as 50% would be able to continue. We ask that Ofgem publish the reasoning for this assumption.

In the FES18 Community Renewables scenario 1025MW on onshore wind should have been deployed in 2018 and in the Steady Progression scenario 877MW. Indeed, to match the FES18 Community Renewables deployment rate for 2024-2029 onshore wind would need to deploy at an average rate of >100% of that achieved 2010-2017 when the effects of subsidy support were highest. According to data held by RenewableUK (of which Innogy are members) just 513MW of onshore wind was commissioned in 2018, with the rates of deployment expected to fall even further. Therefore, currently government policy, which would be compounded by the TCR

proposals, denies consumers access to cheap, clean energy provided by the cheapest sources of new generation¹.

Furthermore, projections under National Grid FES18 scenarios do not account for the >8GW of onshore wind which could be retired over the coming decades if no new policies are enacted to support replacing, or 'repowering', these older wind farms². The final impact assessment should also account for the implications of wind farm decommissioning as this would subsequently affect the redistribution of consumer benefits and system costs that Ofgem account for in the analysis.

We also note that the analysis by Aurora quoted in the sensitivity modelling does not provide an estimate for delays in both solar and onshore wind deployment. Ofgem's consultation suggests that Aurora provided an estimate of the delay to subsidy-free renewables of 2-5 years. However, this referred only to solar and storage, not onshore wind. In fact, even the most ambitious Aurora scenario predicts up to 5GW of subsidy-free onshore being built by 2030³, without any consideration of the impact of the TCR reforms on onshore deployment.

We strongly encourage Ofgem to take note of this additional evidence and apply further sensitivities which better reflect the reality in GB when directing the final impact assessment to be undertaken by Frontier/LCP. In addition, we ask that Ofgem publish the reasoning behind their assumptions, particularly why they conclude that a drop-out rate of 50% is a more 'reasonable' assumption than 100%.

Offshore wind capacity cap and further impacts

We would welcome some clarification on approach regarding the deployment of additional offshore wind to fill the gap left by other renewables as a result of implementation of the TCR reforms. Does the analysis assume that the capacity cap of 6GW which was applied in Pot 2 CfD auction round 3 (2019 auction) would be lifted/increased in subsequent auctions to ensure that sufficient Pot 2 immature renewables will be built to 'fill the gap' left by the drop-out rate of both new build and re-power mature renewables technologies?

Additionally, changes to the Transmission Generation Residual (TGR) will also increase costs borne by offshore wind projects, making it more expensive to operate than non-TGR offshore

¹ Offshore wind became the cheapest source of new generation when the AR3 CfD pot 2 results were announced in September 2019. However, onshore renewables (solar and wind) have not been allowed to compete and show their value since 2015.

² "Onshore Wind: The UK's Next Generation". Intelligence report by RenewableUK, 2019.

³ Aurora Energy Research, 'The new investment landscape for renewables' June 2018

wind. Has the sensitivity analysis considered this as it would subsequently affect the redistribution of consumer benefits and system costs in the analysis.

Sensitivity to BSUoS reforms

We welcome the recognition in the analysis that renewables would be affected by Ofgem's proposed reforms to BSUoS charges. However, it is not clear why only the Full BSUoS reform is being modelled and there is no scenario to recognise the impacts of partial BSUoS reform alongside reform to the TGR. If Ofgem are still considering partial BSUoS reform as a realistic outcome of the TCR then this modelling should be published.

We trust that Ofgem will consider the BSUoS Task Force report, which enjoys support from the majority of industry, before making final decisions regarding BSUoS reforms in the TCR. Based on the conclusions of the BSUoS Taskforce, we consider that Ofgem should also assess the costs and benefits associated with an additional option for BSUoS reform, where BSUoS is levied entirely on final demand.

Carbon values and emissions projections

We fully support the use of consistent carbon values in the cost of carbon emissions for the TGR and BSUoS reform, as outlined in our previous response to the TCR open letter earlier this year. We trust that the final impact assessment will take into account the alternative assumptions regarding carbon values on emissions projections, which Oxera showed the assumed benefits of TCR to be very sensitive to⁴. There is no detail in LCP/Frontier's sensitivity analysis regarding whether alternative values were used on gas prices and emissions intensity.

We also believe due consideration is yet to be given to the future of the small generator discount after 2021. It is not clear if the modelling takes into account its removal after March 2021 (under the current minded-to proposal) and if its impact has been properly evaluated within the sensitivity analysis.

Refined residual charging proposals

We welcome the clarification that power imported from the grid which is necessary for the operation of generation such as wind farms will be exempt from paying reformed demand residual charges.

⁴ [Ofgem's Targeted Charging Review Impact Assessment](#). Oxera, April 2019.

Yours sincerely,



Nicola Percival
Policy & Regulations Manager