

Andy Burgess
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Dear Andy,

Thank you for the opportunity to respond to the TCR consultation letter and supplementary analysis. I would also like to express my appreciation for the openness and engagement that Ofgem has shown, and in particular the time that you and Dermot Nolan have given to the renewables sector to discuss our views on the TCR proposals. As you are aware, our members are very concerned about the impact that the TCR proposals will have on deployment of low carbon generation in future. While the steps that Ofgem have taken to address these concerns are welcome, there is still more that we think could be done.

Our comments below reflect this strength of feeling and refer to the topics of updated carbon modelling, BSUoS Taskforce findings and line loss factor classes clarification.

Assessing the impact on renewables deployment

We welcome the work and stakeholder engagement carried out by Ofgem on the TCR so far. We also appreciate Ofgem taking on the concerns expressed by RenewableUK and others about the impact assessment of the minded-to position and updating the analysis. We fully support the use of consistent carbon values in the cost of carbon emissions for the TGR and BSUoS reform, as outlined in the consultation letter and the amended backing data.

However, we believe that due consideration has not yet to be given to the impact of the TCR reforms on renewable generation and the consequent impact on carbon emissions and consumer cost. It remains our primary concern that the proposals outlined in the TCR are detrimental to the renewable energy industry, jeopardizing further project development and damaging investor confidence.

The recent report into the impact of Ofgem's minded-to proposals for the TCR by Oxera¹ shows not only that the reforms significantly impact the renewables sector but, more importantly as far as Ofgem is concerned, they could lead to major costs to consumers in the range of £1.5 billion to £7.6

¹ Oxera, 'Ofgem's Targeted Charging Review Impact Assessment', April 2019
<https://www.oxera.com/publications/ofgem-targeted-charging-review-impact-assessment/>

billion. Aurora Energy Research have undertaken similar work². RenewableUK and its members are supportive of Ofgem's commitment to reform network charging for a smart, flexible system of the future. Our concerns regard the transparency of the process that Ofgem is following and the flaws which fail to take full account of the impacts of the proposals upon all types of network users. In our view, failure to do so is unlikely to achieve the cost savings that Ofgem envisage, as Oxera demonstrates.

We welcome Ofgem's decision to undertake analysis on the impact of the TCR proposals on the deployment of renewables³. However, we would like to have more detail on how this will be fulfilled. RenewableUK strongly encourages Ofgem to consult openly on all aspects of the TCR reform once the additional analysis on the impact of TCR proposals on deployment of renewables and consumer cost has been published, and certainly before the final TCR decision is published. This approach is in line with the principle of transparent consultation and evidence-based policy making as set out in Government guidance⁴. We believe there is value in consulting the industry, as failure to do so could leave any decision open to challenge and thereby delay implementing eventual solutions and prolong uncertainty in the sector.

Since the launch of the TCR SCR Ofgem provided detailed information on the impact of its proposed charging reform on the charges that different demand customers will face in different regions in the UK. We request that Ofgem also provides a similar degree of granularity of information for different generation types by region. Currently the information for generators is based on the impact on the anticipated NPV per generation type. This is a useful signpost of the direction of travel, however, more can be done to help industry understand the actual input. Publishing the information will help industry as a whole understand better the impact of the proposed reforms on generations costs.

Aligning timings of reform

Network users will not be able to make sensible investment decisions until they know the outcome of Future Charging and Access Reform. This is because network charging costs make up a big part of the ongoing and operational costs of zero-carbon generation – which runs the risk of consumers being unable to benefit from low cost generation. The range between modeling different regulatory pathways of Future Charging and Access Reform could vary in the scale of million pounds per year for projects across UK which demonstrates the uncertainty currently faced by the industry.

We welcome Ofgem's recent open letter which considers aligning the implementation timescales on the TCR together with the Network Access and Forward-Looking Charges reform. In our view Ofgem should be consulting upon all proposals for the Future Charging and Access Reform together and allow the industry to comment on the overall impact of package of reforms. We trust that this will consider analysis on the incentives for flexibility to respond to the signals provided by the regulatory framework. Ofgem's proposals will result in the network costs for parties which have invested in flexibility assets such as battery storage increasing by over 400%. We acknowledge that Ofgem believe that the Network Access project will provide clarity on the future value of flexibility – but that is of little comfort to those with existing assets or making investment decisions in the immediate term. Such uncertainty is compromising the Smart Systems and Flexibility Plan as well as

² Aurora Energy Research, 'Reforms to network charges: The Targeted Charging Review and its implications', May 2019 <https://www.auroraer.com/wp-content/uploads/2019/05/Aurora-TCR-Public-Report-May-2019.pdf>

³ ref: letter from 21st May.

⁴ The UK Government, '*Consultation principles: guidance*' 2012 (updated 2018) <https://www.gov.uk/government/publications/consultation-principles-guidance>

undermining the decarbonisation targets. Therefore, in our view the TCR and the Network Access Project proposals must be looked at alongside one another, rather than separately.

Taking account of the Balancing Services Charges Task Force findings

We agree with the primary recommendation of the final Task Force's report that there is not a case for splitting BSUoS out into the existing elements and charging them differentially. It is a substantial piece of work which has received overwhelming support from the industry from the initial consultation. Given the findings of the Task Force regarding splitting BSUoS, we support the statement that a split out entailing locational BSUoS charging, would cause a high risk of "double-counting" of cost elements/drivers with TNUoS, as the Frontier analysis provided to the task force highlighted. This double charging risk from a locational split-out of BSUoS, as well as not being well theoretically underpinned, would prejudice the low carbon transition to net-zero economy.

RenewableUK did not respond to the consultation of the draft BSUoS task force report and would like to note that, although there were two open seminars to explain and gather feedback, only ten working days were given for responses to the draft BSUoS task force report. Although there were 24 responses, this timeframe was nonetheless too tight to allow for meaningful evaluation of the proposals, particularly for smaller parties who are less well-resourced to access and comment in such short timeframes. The overall scope of the Task Force was also too narrow, therefore we believe there would be merit in exploring issues such as volatility of balancing charges overnight, and over time more generally.

Ofgem should now be able to move forward and take a holistic view of wider charging developments which sit outside the TCR and the Future Charging and Access programme, such as CMP308, which would have required some re-work had the task force made a different recommendation.

We trust that Ofgem will consider the BSUoS Task Force report, which enjoys support across 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. We think that this process provides a good opportunity to help inform industry views on this option which could otherwise result in a change to costs out of sync and outside of the wider Ofgem proposals. This will also allow for a much more holistic view of all the proposed and potential charging reforms on balancing services charges with changes having a significant impact on the transition to a low-carbon energy system.

Delivering a sustainable transition towards a decarbonised energy system requires a whole system focus to be adopted, fairly considering the impact to all network users regardless of the size of their connection.

Clarification of line loss factor classes

The clarification of line loss factor classes (LLFC) is welcome. We believe that LLFCs do not provide sufficient granularity, particularly in transmission where each customer segment contains a wide range of customers.

RenewableUK remains opposed to segmenting users into groups for fixed residual charges under the current set up and use of LLFC methodology. Fundamentally, we disagree that customers with on-site generation and customers without on-site generation are 'similar customers' and therefore

be treated similarly. Charges could be more fairly applied per kW of capacity to create a continuum of charges rather than drawing boundaries between users.

We acknowledge that utilising existing market mechanisms such as the LLFC improves the practicality of implementation, but it is not clear that this is necessarily appropriate or what the alternatives might be. We encourage Ofgem to do a full exploration of alternative approaches to segmentation and banding and how these compare to utilising the LLFC.

Should LLFCs be used for market segmentation, we believe there will need to be extensive review of this methodology to ensure that it is fit for purpose for determining the calculation of residual network charges. We are also cautious that the Electricity Network Access and Forward-looking Charging has scoped a wide-ranging review of distribution access and charging methodology and it is not yet clear if LLFC would need to be changed after the ENAP review has reached its decision.

Should you have any questions on the above response, please do not hesitate to get in touch. Finally, I would like to reiterate my thanks for the engagement to date. I appreciate the scale of the challenge, but as such, there are many concerns that RenewableUK members have.

Yours Sincerely

A handwritten signature in black ink, appearing to be 'H McNeal', with a horizontal line underneath.

Hugh McNeal
Chief Executive, RenewableUK