

# Energy UK response to Ofgem's 'Access and Forward Looking Charges SCR – consultation on minded-to decision'

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## About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering nearly 80% of the UK's power generation and over 90% of the energy supply for the 28 million UK homes as well as businesses.

The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

## Introduction

Energy UK welcomes the opportunity to respond to the Ofgem Access and Forward Looking Charges SCR – consultation on minded-to decision.

Broadly Energy UK supports the Ofgem minded-to decision, although there is a lack of clarity as the minded-to decision and impact assessment does not include other parts of the SCR that could materially affect the outcome for industry. Energy UK is strongly supportive of the acknowledgement of the importance of decarbonisation and the need to protect investor confidence in the minded-to decision.

It is vital that lessons are learned from the Targeted Charging Review (TCR) SCR. Given the delays in applying the final decisions through the code modifications process, Ofgem must be aware of the scale of resources industry will need to provide to implement the decisions of AFLC SCR. Realistic timescales must be applied to the process. Further, early sight of projected charges should be available as soon as possible following Ofgem's decision to allow suppliers to quote and contract with customers as accurately as possible. Where consumers are on contracts where charges are passed-through once known, the difference between quotes (based on current qualitative information) and the actual charges may hurt consumers trust in the industry to provide good quality service. Where charges cannot be passed-through, suppliers must make a commercial decision, which could end up with consumers overpaying or suppliers being financially penalised when the appropriate information was not available.

## Connection boundaries

Bringing connection charges for SDG in line with those of transmission connected generation is vital to deliver a level playing field between voltage levels. We agree with the proposals but note that full alignment is necessary for all distortions between voltage levels to be addressed.

We note that a shallower connection charge will likely result in charges being collected through other means. This could have an effect on the new DUoS charge (minded-to decision not yet published by Ofgem) and if included in the residual charge, may result in the residual changing significantly year on year. Significant variations should be either be flattened or the market should be given advance notice otherwise there may be negative effects on consumers. Energy UK however believes that this increased cost to be recovered by networks as a result of changing access rights should be recovered as network investment and collected over 45 years. However, the detail in the minded-to consultation is insufficient to make an informed decision.

### Access rights

The inclusion of these new access rights are the right course of action. However, the options should go further. The proposals around 'levels of firmness' will more closely align distribution connection arrangements with that of transmission in allowing the potential for more financially firm access for SDG. However the proposals do not go far enough as full financial firmness is needed for parity between voltage levels. Without similar levels of financial firmness there will market distortions between participants at different voltage levels. Failure to include financial firmness appears to fail to meet the first objective of the SCR – to deliver a level playing field between voltage levels.

Energy UK highlights that a non-firm connection will be valued in a lower connection cost. Therefore existing SDG is unlikely to alter its level of firmness unless it is in an active network managed area. The benefits will broadly be seen by new connecting generators unless the process to change a connection agreement for an existing plant is made easier. There is also a risk that new projects may choose to delay until a non-firm connection is available, once the SCR is implemented, rather than pay a higher connection cost earlier.

We would suggest that Non-firm SDG should also face reduced DUoS and TNUoS charges to reflect its level of access.

We agree with Ofgem that a shared access option will have a little or no uptake.

### TNUoS charges for SDG

In principle, Energy UK are supportive of a level playing field between transmission generators and SDG. However, there is unfortunately not enough information about the future of DUoS charging to come to a conclusion on the Ofgem proposals. We cannot assess the changes to connections on the distribution network alongside DUoS changes. It is difficult to support any change without knowing how DUoS charges will change in the latter part of the AFLC review.

Energy UK would support delaying the introduction of TNUoS charges to SDG until there is more clarity around network charges. Introducing staggered changes that are interlinking would result in some generators facing undulating charges. This increases risk that would be detrimental to consumers. Historically, SDG have not been heavily engaged with the TNUoS arrangements and being further exposed to a charging regime that is undergoing a wider review will take resources and risks further lack of engagement. Energy UK may support introduction of grandfathering (as a transitional/phased

approach to be established at workgroup stage) in order protect investors that made final investment decisions in completely different charging regime. We acknowledge that network charges can change year-on-year, and that this should be, to a point, expected by prudent investors. However the introduction of transmission charges on generators whom, if investing prior to 2016, would have seen TNUoS as a *benefit* a significant departure from the framework under which they invested. Some kind of transitional arrangements will also be necessary as there is a potential for a lack of forthcoming investment until all changes to be brought forth in this SCR have been announced or introduced. There is insufficient detail on potential transitional/phasing approaches in the consultation to be able to come to a conclusion.

Energy UK believes it is the right course of action to introduce TNUoS charges to SDG above 1MW. However, we note the potential administrative burden to the ESO as a result. This could be alleviated through a phased approach. We question the decision to remove the zero cap for sub 1MW generators. Northern sub 1MW generators will therefore be charged for exporting over the Triad period (presuming this is not changed in the minded-to decision subsequent to this one). This will send signals for these generators not to generate at times of high demand. This seems like an unintended consequence that has been overlooked and needs to be rectified. The impact assessment suggests that some types of generators exposed to Generation TNUoS will still have a negative charge, suggesting that removing the zero cap will create a distortion between similar generators, dependant on if they are above or below the 1MW cut off.

Ofgem have not included Avoided GSP Infrastructure Credit (AGIC) for GSPs that do not export in the analysis. We would welcome clarity from Ofgem as to why this is the case. There is concern that most GSPs still do not export onto the transmission network and are therefore not triggering reinforcement that is valued by the AGIC.

### Timings

While Energy UK supports many of the proposals in the minded-to decision, there remains a great deal of uncertainty as the analysis on DUoS reforms has yet to be published to industry. Our support of the Ofgem this minded-to decision hinges on Ofgem's phase 2 minded-to decision.

Ofgem must publish and implement the two AFLC SCR decisions together. While some of the changes being consulted on now could be implemented by 2023, it would be unviable to seek to introduce SDG TNUoS, even with transitional arrangements, from this date. We propose that 2025 is the earliest viable date for introduction of these changes, particularly due to the 15 month tariff notice DNOs are required to give – before which time the following steps must be taken:

- Consideration of Phase 1 consultation responses
- Launch of phase 2 consultation
- Consideration of phase 2 consultation
- Publication of decision
- Multiple code modifications launched and progressed through multiple codes
- DNO 15m notice of tariffs

Multiple complex code modifications are of particular concern – there are a number of other critical changes live in the industry at the moment, and there is only so much industry capacity to progress code changes to delivery.

Distribution-connected consumers are generally less able to respond to sudden changes than Transmission-connected consumers, so the potential risk of short-term harm to these consumers is

higher than a purely Transmission network focussed SCR. While we understand the desire to have the changes implemented in time for RIIO-ED2, we believe the disbenefit of rushing changes (as seen in the TCR SCR implementation) would be more problematic.

### Other points

Energy UK would like to highlight that a number of parties not a signatory to the CUSC will be affected by the incoming changes. A number of them will likely want to be members of the upcoming workgroups to implement the directed changes. Presently, Ofgem need to grant special dispensation to these parties should they wish to be a CUSC workgroup member. Ofgem and the ESO (as CUSC Code Administrator) should be aware of the potential administrative burden of this.

We have several concerns relating to the modelling that was carried out to support the decision-making. Whilst we acknowledge that the decision is not made on the basis of modelling alone, it is important that all information that contributes to such an impactful policy decision is as robust as it can be.

The proposed TNUoS charges on embedded generators will have a significant negative impact on a number of renewable development sites – rendering a number of them no-longer viable. Therefore, the treatment of generation capacity as an exogenous factor is a significant shortcoming of the CEPA-TNEI modelling – something CEPA themselves acknowledge.

This impact is not only limited to development sites however, but also the re-powering of existing sites. CEPA states that...

*...while we do not have direct evidence of the costs of re-powering, Renewable UK suggests that this may allow for somewhere in the region of a 20% saving on LCOE compared to investment in new capacity. In the case of repowering decisions in north Scotland, the net revenue impacts that we observe could represent up to 26% of LCOE for a repowering decision for an embedded onshore wind generator such that **this could lead to a decision not to re-power for some projects.***

(CEPA Analysis, p42)

Repowering offers the opportunity to generate more power, on existing sites, from fewer turbines, at a cost below that of a new site. It is therefore not clear why thorough modelling of the capacity implications of a fall in the level of repowering has not been carried out.

The lack of consideration of changing technology mix also fails to capture the geographical diversity impact on balancing costs, on technology capture prices, and possible changes in installed capacity of flexible technologies – all of which could have significant impacts on cost.

The modelling includes a lack of sensitivity analysis to take account of the current wider policy regime. For example, the model shows large amounts of onshore wind is deployed in England, where it currently faces significant planning barriers. Although the FES also makes assumptions about onshore wind deployment in England, OFGEM's proposed reforms are shown to further increase the requirement of build-out of onshore wind in England. This is likely to have an impact on low-carbon support costs, and transmission network development requirements. Without sensitivity analysis, the impact of the interaction between policies cannot be assessed.

CEPA states that "In the modelling itself, we do not allow for capacity to re-allocate between the transmission network and the distribution network". Instead relying on revenue modelling to give

some insight. Given the express purpose of charging TNUoS on SDG is to drive more efficient decision-making about connecting to either the transmission or distribution network, failure to model a response to this is a significant shortcoming.

The impact assessment makes the assumption that SDG TNUoS costs will be included in the calculation of the €2.50/MWh cap, however the inclusion of these costs is still an open question. Given the significant impact this will have on tariffs for different network users, the lack of sensitivity analysis in the IA is a significant shortcoming.

Limited attention has been paid to carbon emissions impact of these proposals – limited only to the effects of redispatch. It is not clear that the reduction in capacity factors owing to renewable generation being deployed in less resource-rich locations has been taken into account. Also, without the ability to reselect an alternative generation mix, the impact of the inevitable trade-off between onshore wind (typical capacity factor 34%) and solar (typical capacity factor 11%) has not been considered. A limited focus on carbon emissions such as this means it is also not possible to assess the impact of this change on the energy sector's contribution to meeting the carbon budgets. Any reduction in contribution would require greater carbon savings to be found in other areas of the economy, potentially at higher cost.

The methodology and assumptions behind the calculation of the indicative tariffs in tables 5.2 and 5.3 in the CEPA-TNEI Quantitative Analysis of Access SCR Options is not transparent. The draft tariffs do not align with the locational charging signals sent to large transmission connected generators through their TNUoS charges and we are not convinced how cost reflective the indicative tariffs are. This additional level of detail is necessary to fully understand the impact of the proposed reforms on generators and customers.

We are disappointed that Ofgem did not commit to any direct stakeholder engagement (i.e. a Charging Futures Forum, etc.) during the consultation period of the Ofgem minded-to Decision. Engagement up to now has been positive and we would encourage the ability to again engage in direct discussions during consultation periods.

In summary, we have significant concerns that the shortcomings in the modelling mean that it is not possible for Ofgem to make an informed assessment regarding if the “Arrangements support decarbonisation and contribute to meeting net zero targets” – a central part of the first guiding principle of the SCR.

Should you have any questions regarding our response, please do get in touch.

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