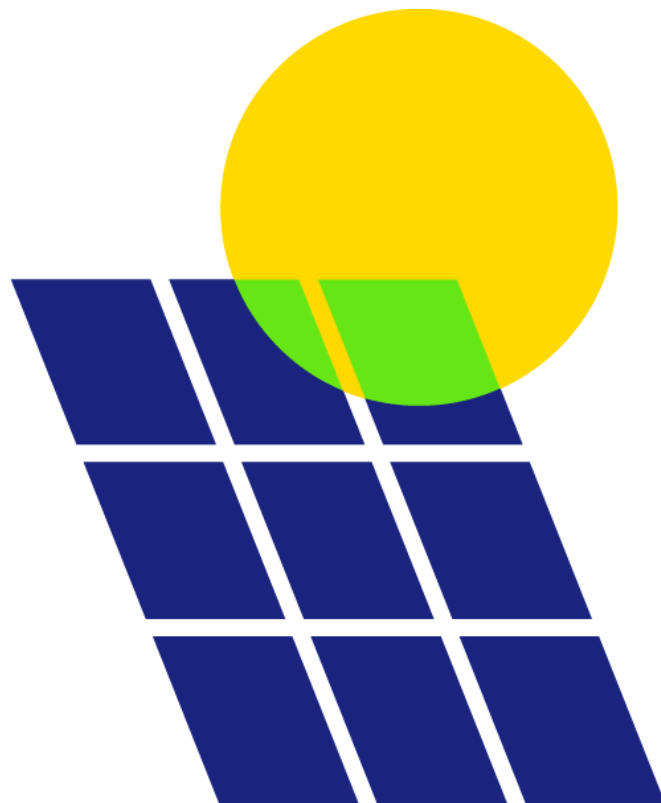




# **Solar Energy UK Response**

## **Ofgem Forward Work Programme 2021/22 Consultation**



## About us

Since 1978, Solar Energy UK 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 catalysing our members to pave the way for 40GW of solar energy capacity by 2030. We represent solar heat, solar power and energy storage, with a proven track record of securing breakthroughs for all three.

## Respondent details

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Would you like this response to remain confidential? No

## Introduction

We welcome the opportunity to respond to the consultation. Solar Energy UK has long echoed organisations such as the National Infrastructure Commission and the Confederation of British Industry in calling for reforms to Ofgem's mandate to align with our legally binding net zero emissions target. Whilst this programme reflects progress, there is room for further refinement to support the solar and storage sectors.

## Responses and Recommendations

### 1. Ofgem's new strategic framework

Solar Energy UK welcomes Ofgem's overarching aim to enable the most effective decarbonisation of the energy sector at the lowest cost to consumers. It is widely projected that by 2050 low-carbon electricity generation will need to quadruple to replace existing fossil fuel generation and meet the expected rise in demand.

There is clear alignment between the new strategic framework and the priorities identified in Ofgem's Decarbonisation Action Plan. However, there is little mention of the Action Plan in the forward work programme as set out in this consultation, and we would welcome additional clarification of how the two will work in tandem.

## 2. Core regulatory functions

Solar Energy UK continues to recommend that, in line with Ofgem's stated core priority of decarbonisation and delivering a net-zero economy, a clear net-zero regulatory remit is added to Ofgem's core regulatory functions.

We of course agree that there should be a focus on protecting consumers and the most vulnerable through the energy transition. However, this should not be at the expense of ensuring that all decision-making fully supports net zero decarbonisation and enables the deployment of renewable technologies at the scale necessary to achieve this. With renewable energy sources now already or on track to be among the cheapest sources of energy, it should be possible for Ofgem to give these two objectives equal weight within its regulatory and enforcement mechanisms.

## 3. Delivering government schemes

As the administrator of environmental and social schemes, Ofgem must facilitate the continued commercial operation of existing renewable assets in receipt of ROCs and FiTs through ensuring a fair, transparent, and prompt audit process. Ofgem's role in administering these schemes is central to decarbonisation. The RO and FiT schemes have a successful track record and have resulted in delivering the vast majority of solar PV in the UK. They have played an integral role in the emergence of a subsidy-free PV market in the UK.

Solar Energy UK is keen to work together with Ofgem to ensure the audits process and supporting guidance for generators, including around routine maintenance, replacement, and repowering, are based on the best industry knowledge and practice. A reasonable and proportionate RO/FiT auditing process is essential to ensuring the legitimacy of these schemes going forward, and ensuring subsidy is being awarded in compliance with the legislation. We would like to emphasise our commitment to a fair and prompt audit process, but also our dismay that our members' experience with the current process is neither of these things.

Over the past decade our members have invested in new and existing solar sites in receipt of ROCs or FiTs, following proper due diligence and in good faith that Ofgem's accreditation and auditing process would be proportionate, transparent, and fair. The collective experience of Solar Energy UK members identifies a vague, inconsistent, and protracted auditing process which, in some circumstances, has resulted in the suspension of payments based on the absence of evidence which is either unsuitable for the given site, or is in no way related to determining whether a site was 'commissioned' or 'capable of export' under the scheme guidance.

Our members have recently reported a significant increase in both the number of Ofgem audits and the time and cost incurred by companies in complying with audit requests. Not only are the higher costs of resulting from the administration of the audits programme borne by consumers, but the effect on the day-to-day operation of the companies delivering the most cost-effective form of renewable energy has been substantial.

Our members indicate that the cost to industry of Ofgem's auditing process has increased to result in, on average, external legal and technical costs of over £50,000 per site and the equivalent of two employees full-time working on multiple site audits over roughly an 18-month period. Our members have also reported an average of 89 weeks (22 months) from receipt of the audit letter to confirmation of completion.

The combination of costs, delays, lack of transparency and inconsistency has caused considerable uncertainty for the industry and could make it more difficult to secure finance and complete future transactions. The audits process as it stands has a profound impact on the confidence that shareholders and investors have in the renewables sector, damaging the trust developed with reputable asset owners over the last decade. Fair, proportionate, and consistent application of regulatory oversight of these schemes is central to ensuring the continued growth of the sector, which is essential to meeting the Government's net zero objectives.

We have welcomed the recent engagement from Ofgem's stakeholder and audits teams on the concerns Solar Energy UK members have raised and look forward to working together to ensure that going forwards we can improve efficiency, transparency, and certainty for both the industry and the Authority.

#### **4. Low carbon infrastructure**

We have welcomed the recent commitments to accelerating investment in the low carbon infrastructure necessary to enable accelerated deployment of renewable generations, particularly the work Ofgem has undertaken with the Energy Networks Association (ENA) to accelerate grid investments and deliver shovel ready projects sooner.

Ofgem must ensure that all forms of renewable generation are sufficiently incentivised through the next network price controls, in line with required deployment rates to achieve net zero, and that grid connections are not a prohibitive barrier to new renewables or storage deployment.

Currently, renewable generation such as solar is often highly restricted as to where appropriate connections are available; factors such as available space and irradiance must coincide with capacity and minimal or no constraints on the local grid. DNOs commonly require applications for utility and C&I projects to install smaller capacities (even when the generation will be self-consumed onsite and fail-safe G100 export limiters are installed). Subsidy free solar has extremely thin margins meaning reductions to capacity sizes for projects frequently make the business case unviable. Furthermore, standardisation across DNOs in terms of processes and costs (such as Assessment and Design Fees) is important to reduce the complexity and burden for new renewable developments.

Solar Energy UK is concerned that the proposed work programme does not adequately address the barriers to deployment that onshore renewable energy projects face, particularly from grid connection costs. We welcome that anticipatory

investments in the grid are permitted through the current framework, however we are concerned that the level of investment in the grid that will be necessary is not fully grappled with in this work programme, apart from through net zero re-openers. RIIO-2 must incentivise networks to appropriately and proactively invest in the grid infrastructure needed to enable the quadrupling of clean power required by 2050. More can be done to address the barriers preventing anticipatory investment and reform the disadvantageous approaches taken by DNOs towards new renewable connections.

The electrification of heating and transport, both of which are emphasized in the work programme, are projected to result in at least a tripling of electricity demand over the next decade. Our modelling has shown that on-site renewable generation and storage, will be essential to meeting this increase in demand, while reducing or delaying the commensurate costly grid upgrades. Our recent report<sup>1</sup> projects that 4.4 million smart solar homes will be required by 2035 to achieve net zero. This amount of domestic solar and storage deployment is enough to eliminate the evening peak in electricity demand, and it is this level of investment in decentralised generation and storage that Ofgem must be focused on enabling, both to protect consumers and to deliver the system level benefits required for decarbonising the network.

## 5. Full chain flexibility

Ofgem must ensure that all forms of renewable generation and low carbon flexibility are sufficiently incentivised through the next network price controls and regulatory framework, in line with required deployment rates to achieve net zero.

We welcome the commitment to publishing version 2.0 of the Smart Systems and Flexibility Plan, and the acknowledgement in Ofgem's Decarbonisation Action Plan that networks should "account" for the carbon intensity. We also welcome and support the ongoing and proposed new activities in the forward work programme.

However, these commitments do not go far enough to drive the decarbonisation of flexibility. Ofgem should set out commitments and targets for decarbonising flexibility markets consistent with delivering net zero by 2050. Networks should also be incentivised through the RIIO-2 framework to prioritise and procure low carbon flexibility services wherever possible.

Further, local flexibility markets, such as those run by network operators, must be facilitated through the regulatory framework, with equal access and incentives for domestic and larger users, for example through enabling smart home participation.

## 6. Future of retail

As consumer engagement with smart technology increases, (e.g. through installing a smart meter), it is important there is a competitive marketplace for smart tariffs,

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<sup>1</sup> <https://www.solar-trade.org.uk/wp-content/uploads/2020/07/Smart-Solar-Homes.pdf>

which incentivise consumer engagement and efficient energy use. Smart home technologies must also be simple and easy for consumers to use. This includes ensuring that different types of smart home technology are compatible.

Solar Energy UK supports measures to drive a competitive marketplace for smart tariffs, include market half hourly settlement of both imported and exported electricity, the Government annually reviewing the state of the export tariff (or Smart Export Guarantee) market, ensuring ease of use for consumers by removing features such as manual meter reads, and ensuring clear communications to consumers of the benefits.

Consumers must be able to choose what is right for them and their energy use. This could be choosing between bundled or different electricity suppliers for their supply tariffs, export tariffs, EV's and flexibility services, to ensure they are getting the best deal. Delays and issues with the smart meter roll out have decelerated this alongside slow progress on half hourly settlement and change modifications, such as one enabling consumers to buy and sell electricity from and to multiple parties. Metering must facilitate an active, competitive, and innovative market.

## **7. Data and digitalisation**

We welcome the recognition in the RIIO-2 framework that strategic investment requires better visibility, consistent data gathering, and making publicly available information on current levels of network utilisation and changes to utilisation based on different forecast growth scenarios.

We are supportive of Ofgem's outlined approach to regulating data collection and digitalisation and look forward to being provided with access to monitoring and data, especially for constrained areas. We welcome the 'presumed open' requirements for the networks and recommend including 'presumed collected' requirements on new infrastructure upgrades in line with engineering standards currently being drafted. Expanding collection requirements is especially important for solar and storage assets below 1MW, due to the lack of visibility following the closure of the RO and FIT schemes.

## **8. Energy system governance**

See our response to point 2 above. Our key recommendation continues to be that Ofgem's mandate is reformed to align with the legally binding net zero target. Solar Energy UK recommends that the Government provide an updated Statement of Policy and Strategy for Ofgem which should include the additional core regulatory remit and energy system governance role of accelerating the delivery of net zero and regulating the decarbonisation of energy networks, while delivering the lowest cost of energy possible to consumers.

## **9. Transforming Ofgem**

Solar Energy UK supports the target outcomes in the Forward Work Programme.

### **10.Reducing burdens**

Solar Energy UK supports the regular review of regulatory functions to ensure undue burdens are not placed on regulated parties. We would refer again to our response to point 3, delivering government schemes.