REA Solar & Energy Storage Forum
Members Meeting

2nd February 2023

REA Competition Law Policy

- REA’s compliance with all aspects of UK Competition Law applies to all activities of REA including its subsidiaries Member Forums, committees, working groups, technical groups, and sub-groups and any other such meeting:
  - ➢ Members are not permitted to discuss competitively sensitive information, or to use REA as a conduit for such discussions
  - ➢ Competitively sensitive information covers any non-public strategic information about a business’s commercial policy. It includes, but is not limited to, future pricing and output plans
  - ➢ Please note this session is being recorded for note taking purposes.

Agenda

- Electricity Generator Levy – Impact on Solar & Energy Storage
- Update on Government Policy Workstreams
- Relevant Consultations for Solar & Energy Storage Members
- Grid Issues: Cross TA Letter & Electricity Amendment
- 2023 Projections for Solar & Energy Storage

Detailed Information on Draft Legislation for the EGL

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New temporary **45% tax** on 'extraordinary returns' from low carbon UK generation.

Aggregate revenue that generators make per annum from in-scope generation, across their group, at an average **output price above £75/MWh.**

The tax is limited to generators whose in-scope generation output exceeds **50GWh/year** and applies to extraordinary returns exceeding **£10 million.**

Still No Investment Allowances

In-Scope Generation: levy applies to groups generating electricity from nuclear and renewable (including biomass) sources and energy from waste.

Reduction of Total Generation Threshold: This has been reduced in the draft legislation to 50 GWh per annum (from 100 GWh). Note other thresholds remain in place.

Revenue (£10mn) and generation thresholds confirmed as pro-rated.

Indexation of the benchmark price of £75/MWh: Government agreed that the initial benchmark price of £75/MWh will be adjusted each year from April 2024 in line with the Consumer Prices Index in the preceding calendar year.

However, note this will be the only feature of the levy that will be indexed, with the £10mn allowance remaining static.

Introduction of Exceptional Cost Allowance for Fuels and Shared revenues.

Other Revenues including FiT, RO, REGOs and Ancillary Services: Receipts from ROCs, REGOs, balancing bids where output is reduced, capacity markets payments, ancillary services and the Feed in Tariff generation and export generator payments are excluded from the EGL calculation.

Note that Feed-in Tariff sites that have opted to export on commercial terms will still have such export revenue subject to the levy.

New 45% Electricity Generation Levy (EGL)

Key areas of ongoing concern that REA are talking with Treasury on:

- **Investment Allowances.**
- **Shorten Sun-set Clause, currently set to end in 2028.**
- **Addition of Further Exceptional Costs Allowance**
- **Explicit exclusion of ROC and REGO receipts**
- **Energy Storage**: Supplementary Technical Notes states *“Revenues from storage – including battery technologies, pumped hydroelectric storage, and innovative storage technologies such as hydrogen – and grid stabilisation will not be subject to the EGL, with the exception of hybrid assets where generators will need to identify revenues from generation.”*

However, draft legislation does not make explicit refence to storage, Serious concern that current definition of storage as a sub-set of generation could see its inclusion. Treasury have reiterated their intention for storage note to be included.

- REA also seeking further guidance from HMRC in relation to **co-location sites.**
- **Effect of guidance when interpreting the legislation**

Net Zero Review - Solar

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The Review calls for a ‘solar revolution’ and a ‘rooftop revolution’ for the Government to reach its 70GW target by 2035. The Review recommends that the Government:

- Establishes a task force and deployment roadmap in 2023 for solar to reach 70GW by 2035, using previous collaborations between Government and industry, such as the Offshore Wind Acceleration and Floating Wind taskforce, as a model.
- Brings forward all consultations and work to mandate the Future Homes Standard by 2025, which should include consultation on mandating new homes to be built with solar installed.
- Considers supporting households to install roof solar panels as part of a retrofit support scheme.
- Removes planning permission for installing domestic solar or commercial solar on the rooftops of buildings.
- Monitoring the total number of installations and MW capacity per local authority to drive solar deployment forward.
- Coordinates planning for countryside solar farms as part of a Land Use Strategy as opposed to uncoordinated individual projects.
- Builds the capacity of the UK workforce to deliver increased demand for solar installation by providing the necessary training and certification for installers.

Net Zero Review - Energy Storage

The Review acknowledges that energy storage is essential for delivering a flexible grid. The Review recommends that the Government:

- Sets out a strategy by 2024 for a market for flexible capacity, detailing pathways for different technologies to 2035. At a minimum, this strategy would cover long-duration storage (including whether current R&D spending is sufficient) and different roles of dispatchable power.
- Delivers hydrogen transport and storage business models as soon as possible, rather than by the Government's current deadline of 2025, and supports key 'no regrets' hydrogen transport and storage projects by enabling anticipatory spending.

- Creates a system-wide plan for hydrogen through the Future System Operator, considering the interaction between hydrogen storage and balancing renewables, and naming priority areas for minimum viable storage infrastructure.

REMA Update

Context: Policy proposals concerning REMA were originally conducted in Spring 2022 as a way of responding to the energy crisis. While Jacob Rees-Mogg was Secretary of State for BEIS, he considered the proposals under REMA to be inadequate to address the immediate energy crisis, but thought the proposals had value in medium- to long-term reform of energy markets.

The momentum behind REMA has reduced, but the Government still wants to push ahead with medium to long-term thinking around Q2/Q3 this year.

REMA – The Next Steps

- The Government's intention is to narrow down their proposals and describe the areas that they want to take forward.
- The REA will engage with REMA when the Government releases their preferred proposals around Q2/3 this year.
- Solar & Energy Storage members will be encouraged to engage with the proposals when they are released. If possible, these proposals can be discussed in the Solar & Energy Storage Wider Forum Meeting in June.

Reintroduction of Energy Security Bill

After much delay, the Energy Security Bill was reintroduced to parliament at the end of last year and about to reach the Commons, having gone through the Lords.

Bill includes:

- Electricity storage technologies definition, such as lithium batteries, as a subset of electricity generation.
- The Bill confirms the establishment of the Future System Operator.
- The Bill will provide the Government with powers to introduce regulations for energy smart appliances (such as smart EV charge points and smart heat pumps) so that devices meet minimum technical requirements for cyber security, interoperability, data privacy and grid stability.

Electricity storage

162 Electricity storage

In section 4 of the Electricity Act 1989 (prohibition on unlicensed generation etc of electricity), after subsection (3) insert—

"(3ZA) In subsection (1)(a), the reference to a person who generates electricity includes a reference to a person who generates electricity from stored energy.

(3ZB) In subsection (3ZA), "stored energy" means energy that—

(a) was converted from electricity, and

(b) is stored for the purpose of its future reconversion into electricity."

Consultation – BMV Land and Levelling-up Bill

Reclassifying BMV Land: Although proposals to reclassify Best and Most Versatile (BMV) agricultural land to include 3b land has been dropped, the REA believes that future discussions on solar development and energy storage are likely to focus on the planning process.

Consultation on the Levelling-up Bill's reforms to the National Planning Policy Framework includes a proposal to give agricultural land for food production a 'relative value' when development of higher quality agricultural land is necessary.

The current Framework expects planning to enhance the natural and local environment by recognising the wider benefits from natural capital and ecosystem, including the economic and other benefits of BMV agricultural land.

Deadline: 2nd March 2023.

"To build on this, we propose a change to the current Framework footnote 58 by adding detail on the consideration that should be given to the relative value of agricultural land for food production, where significant development of higher quality agricultural land is demonstrated to be necessary, compared to areas of poorer quality land."

175. Plans should: distinguish between the hierarchy of international, national and locally designated sites; allocate land with the least environmental or amenity value, where consistent with other policies in this Framework[58]; take a strategic approach to maintaining and enhancing networks of habitats and green infrastructure; and plan for the enhancement of natural capital at a catchment or landscape scale across local authority boundaries.

[58] Where significant development of agricultural land is demonstrated to be necessary, areas of poorer quality land should be preferred to those of a higher quality.

Consultation – Future CfD Rounds: Repowering

In their consultation on future CfD rounds, the Government are seeking further evidence by 7th February on whether projects that repower existing assets should be considered in the CfD scheme.

The REA has drafted a response to this question. Overall, the REA considers this mechanism to be appropriate for ensuring a sensible route for assets continuing to operate beyond their existing support mechanism.

However, 'repowering CfDs' should be a separate pot of funding to new build generation and work in parallel with other innovative business models

Deadline: 7th February 2023

11. Is the CfD an appropriate mechanism through which to support repowered assets, or are there other appropriate routes to market? If participating in the CfD, should these projects compete alongside new build projects? Please, provide details and/or evidence for your reasoning. We are particularly interested in evidence on the impact of supporting repowered projects on decarbonisation, and the relative cost competitiveness of repowered projects.

12. In your opinion, how should a "repowered" project be defined? How does this definition align with current CfD eligibility?

13. What are the main barriers to repowering projects in relation to the CfD? Are there any additional factors that are not outlined in the above text?

Consultation – Future CfD Rounds: Policy Updates

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The balance between market exposure and investor certainty
The current level of price exposure was maintained for AR6 because it was seen to strike the correct balance between driving innovation through competition and providing revenue confidence. The level of price will be reviewed again after AR6. In addition, the first consultation of REMA considered the role of CfDs in future market arrangements. The Government will publish a response to the consultation results this winter.

Interaction between the CfD and Capacity Mechanism on eligibility
Current Capacity Market (CM) rules allow a capacity provider to voluntarily withdraw from the CM to submit a bid in the CfD AR. There is a mismatch between how the CM rules interact with the CfD rules that effectively means capacity providers cannot participate. Government plans to suggest proposals on addressing this issue.

Non-price criteria in the CfD
Government is considering non-price barriers to renewable development. For example, in certain European countries, the outcome of a CfD bid is not solely determined by the financial value of the bid, but will consider other values like sustainability, project resilience, and system integration. Government plans to engage stakeholders on these matters.

Capacity Market Consultation

The Government has published a consultation on reforming the Capacity Market (CM) to better align the mechanism with the Government's Net Zero and energy security targets. Follows last years Call for Evidence.

- Significantly reduce the emissions intensity limits applicable to new build plants in the CM from 1 October 2034.
- Create a route by which exiting Capacity Market Units (CMUs) can leave multi-year agreements early in order to decarbonise, subject to security of supply considerations.
- Enable low carbon capacity with low capital expenditure to access multi-year agreements of three years without being required to meet capital expenditure thresholds.
- Consider the introduction of a new 9-year threshold as a mid-point between the existing 3- and 15-year thresholds. Seen as likely to be more appropriate for low carbon projects.
- Questions considering the role government energy policy has in supporting projects with long build times and the relationship between the CM and wider government support for large-scale long-duration electricity storage.
- Seeking feedback on challenges faced by storage CMUs in meeting the requirements outlined in the Extended Performance Test.

Deadline 3rd March. REA will be developing further opportunities to engage with consultation.

Cross Trade Association Letter on Grid Connections

- TA's Highlighted ongoing grid delays of up to 15 years. Called on Government to require Ofgem to accelerate investment in the transmission and distribution network and shift to a strategic rather than reactive approach.

- Plus, a CEO led plan from the system operator, transmission and distribution networks for immediate measures to address constraints.

- ***Lord Callahan highlighted*** 'GB Connection Reform' project going forward. *" work such as improving management of the connection queue, better modelling of network impacts of new connections and Regional Development Programmes should release network capacity."*

- Energy Networks Association has established a Strategic Connections Group, comprising senior members from all transmission and distribution network companies.

- Government developing Nationally Significant Infrastructure Project (NSIP) Reform Action Plan.

transforming energy

13 December 2022

The Rt Hon Grant Shapps MP
Secretary of State for Business, Energy and Industrial Strategy

Re: Unblocking electricity network barriers to net zero and economic growth

Rachel Hayes
Director, Electricity Storage Network

THE ELECTRICITY STORAGE NETWORK

Chris Hewett
CEO, Solar Energy UK

Solar Energy UK

Morag Watson
Director of Policy, Scottish Renewables

scottish renewables

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CEO, Regen and Electricity Storage Network

regen transforming energy

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Our ref: MCB2022/31942

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17 January 2023

Dear Merlin,

Thank you for your and your co-signatories' letter dated 13 December to the Secretary of State, on behalf of UK energy trade associations, regarding action to resolve electricity network constraints. I am responding on behalf of the Secretary of State. I apologise for the delay in response, your letter has only recently been brought to my attention.

We are aware of lengthy connection timelines currently being offered in parts of the country and the impact this is having on connection projects. As highlighted in your letter, the Electricity System Operator's 'GB Connections Reform' project should help to reduce network constraints. In addition, work such as improving management of the connection queue, better modelling of network impacts of new connections and Regional Development Programmes should release network capacity. This will result in revised earlier connection timescales being offered to customers. Importantly, this is being taken forward collaboratively between transmission and distribution network companies and connection stakeholders. I encourage you and your members to continue to work with the network companies to identify and deliver solutions.

Grid Updates –
Electricity (Connection Charges) Regulations 2017 (ECCR 2017)

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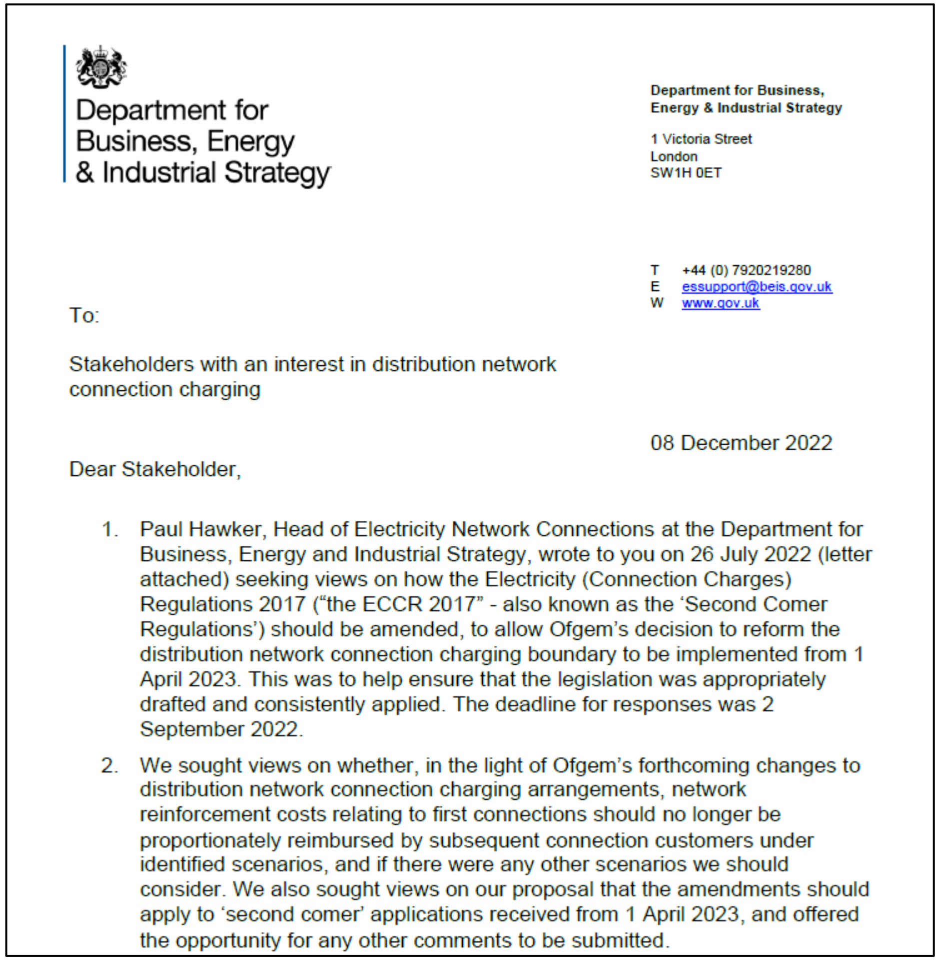
BEIS has decided to amend the Electricity (Connection Charges) Regulations 2017 (ECCR 2017) through the Electricity (Connection Charges) (Amendment) Regulations 2022.

Follows stakeholder input last year on ECCR 2017 to allow Ofgem's decision to reform the distribution network connection charging boundary to be implemented from 1 April 2023.

The letter sought to find out whether, in light of Ofgem's forthcoming changes to distribution network connection charging arrangements, network reinforcement costs relating to first connections should no longer be proportionately reimbursed by subsequent connection customers under identified scenarios, and if there were any other scenarios that BEIS should have considered.

Open letter from Ofgem confirms changes. The amending Regulations will apply to second comer connection applications submitted on or after 1 April 2023



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To:

Stakeholders with an interest in distribution network connection charging

08 December 2022

Dear Stakeholder,

1. Paul Hawker, Head of Electricity Network Connections at the Department for Business, Energy and Industrial Strategy, wrote to you on 26 July 2022 (letter attached) seeking views on how the Electricity (Connection Charges) Regulations 2017 ("the ECCR 2017" - also known as the 'Second Comer Regulations') should be amended, to allow Ofgem's decision to reform the distribution network connection charging boundary to be implemented from 1 April 2023. This was to help ensure that the legislation was appropriately drafted and consistently applied. The deadline for responses was 2 September 2022.
2. We sought views on whether, in the light of Ofgem's forthcoming changes to distribution network connection charging arrangements, network reinforcement costs relating to first connections should no longer be proportionately reimbursed by subsequent connection customers under identified scenarios, and if there were any other scenarios we should consider. We also sought views on our proposal that the amendments should apply to 'second comer' applications received from 1 April 2023, and offered the opportunity for any other comments to be submitted.

Further Grid Issue Updates

- Long Duration Energy Storage Update
- Secure Smart Electricity Systems (SSES) Updates
- Further Grid Issues to Note

2023 Solar & Energy Storage Projections

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Trends:

Electricity Generator Levy

Supply chain constraints

REMA

CfD AR5 Solar Support

Rooftop PV

Reclassifying BMV land

Dedicated Gov focus on capacity constraints

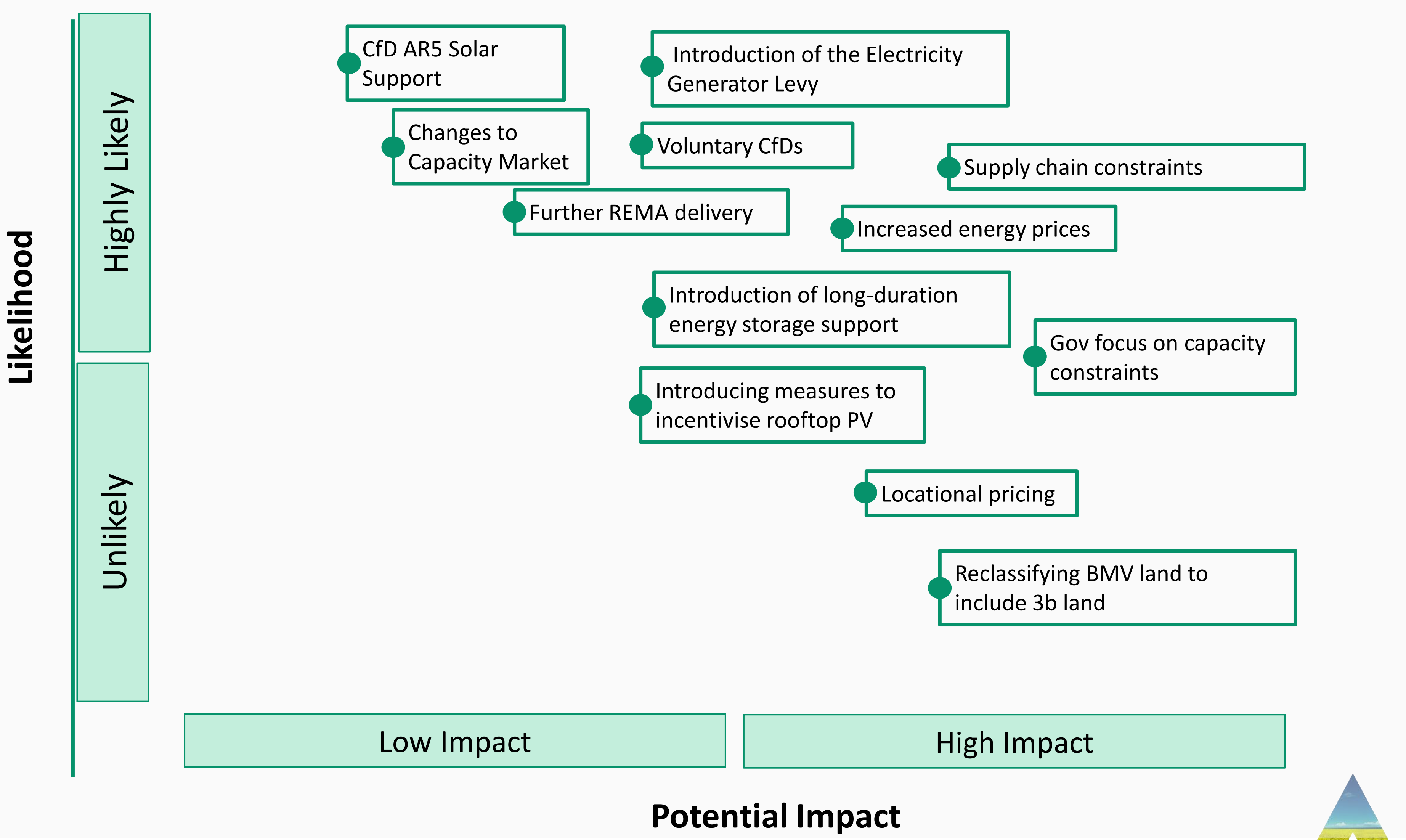
Introduction of long-duration energy storage support

Changes to the Capacity Market

Further analysis of locational pricing

Increased energy prices

Voluntary CfDs



REA – Get Involved

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Next Members Meeting

Thursday 29th June
1pm – 3pm (potentially in person)