

2 September 2020

Ofgem
10 S Colonnade
Canary Wharf
London
E14 4PU

Dear Sir/Madam,

[Re. RIIO-2 Draft Determinations for Transmissions, Gas Distribution and Electricity System Operator](#)

Thank you for your invitation to provide evidence to the above named inquiry.

The Civil Engineering Contractors Association (CECA) is the representative body for companies who work day-to-day to deliver, upgrade, and maintain the UK's transport and utility network infrastructure.

With more than 300 members throughout England, Scotland and Wales, we represent firms who together carry out up to 80 per cent of all civil engineering activity in the UK, in the key sectors of transport, energy, communications, waste and water infrastructure.

Our members include some of the largest construction firms as well as a range of small specialist and regional contractors. Our industry supports the employment of over 200,000 people in the UK with annual activity worth £25 billion.

We have responded to the questions where we feel we can offer the most value, and we hope that you find the information below of interest.

Yours sincerely,



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CECA Evidence

2 September 2020

Re. RIIO-2 Draft Determinations for Transmissions, Gas Distribution and Electricity System Operator

The Civil Engineering Contractors Association is extremely concerned about the draft determination for RIIO-2, the second wave of gas distribution and gas and electricity transmission price controls.

CECA has been a long term advocate of clear workload pipelines to enable its members to develop and invest in their businesses and workforce in order to deliver projects as innovatively and efficiently as possible.

To this end we are extremely concerned that the proposals outlined in the draft determination for RIIO-2 will drive a series of unintended consequences, which we believe, risk undermining the effective process established by Ofgem through its price control mechanisms.

CECA understands the challenging financial climate energy consumers have navigated over the last ten years. To this end, we welcome steps taken by governments and energy providers to date to reduce bills and facilitate greener choices. However, we have substantial concern that the proposals outlined in the draft determination will have a negative impact on the progress made to date.

By significantly reducing the funding energy networks receive at the outset, the proposals in the draft determination will immediately impact on the delivery of resilient and reliable networks. They will also jeopardise the delivery of the transition towards a green recovery and the UK Government's ambition of bringing all greenhouse gas emissions to net zero by 2050.

Ofgem must facilitate a regulatory framework that both incentivises investment and protects consumers. As it stands, the draft determination will not achieve this, meaning that investment in energy infrastructure will slow, inhibiting critical upgrades, reinforcements and developments.

In the long term this will inhibit UK wide economic growth as the reduced investment will create and support fewer jobs and opportunities for localised skills specialisms. It will also impact on the UK's attractiveness to international investors. These challenges will be especially problematic for the areas of the UK which have historically suffered from long term underinvestment.

Furthermore, consumers will not benefit from planned upgrades and maintenance, leading to unreliable energy supplies and unforeseen bill hikes in order to pay for emergency works on an aging network, ill equipped for future demand.

The proposals in RIIO-2 will result in network operators significantly reducing their running and financing costs. While in theory, the opportunity for operators to seek additional revenue during the control period is a possibility, the lack of funding certainty will have a direct impact on supply chains. They will move away from the energy sector, towards those offering more profitable returns and clear pipeline visibility.

For those remaining, the proposed balance between penalties and incentives and the reward for innovation and delivery is unattractive. In our view, it is likely to lead to an adversarial and highly litigious relationship between client and supply chain as all parties focus primarily of meeting contractual requirements, as opposed to driving a culture of collaboration on challenging projects.

Finally, the inconsistent cycle of work which the draft determination will generate over its funding period will drive a culture of boom and bust in the supply chain. Our experience in the water sector concludes that this is ineffective in delivering the mutually beneficial long term partnerships needed to deliver projects innovatively and efficiently. We therefore welcome the steps taken by those operators, working with CECA, to address these challenges.