

By email: Ofgem RIIO-ED2 Consultation Team

25 August 2022

Dear Ofgem RIIO-ED2 Team

## **Consultation response: RIIO-ED2 draft determinations**

I am writing to you in response to the RIIO-ED2 draft determinations published on 29 June 2022.

As you may know, BusinessLDN – formerly London First – is a business campaigning group with the mission to make London the best city in the world in which to do business, for the benefit of the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital. We have around 175 members from a wide range of sectors, including energy. UK Power Networks is one of our members.

By 2043, the population of London is expected to reach 9.8 million people, an increase of 800,000 people when compared with 2021. This projected growth is testimony to the capital's continued attractiveness as one of the world's leading global cities. It is imperative that the capital's infrastructure keeps pace with expected growth and does not become an impediment to it.

If a growing London is to fulfil its economic potential for the whole of the UK, the city will require significant investment in infrastructure. We must avoid a repeat of the recent issues encountered by developers in three London boroughs, Ealing, Hounslow, Hillingdon, who were notified by the Greater London Authority in July, that they could be facing restrictions on new residential development due to capacity constraints on the national electricity transmission grid.

The regulatory framework at present is not explicitly clear as to how DNOs should take into account the city's forecast growth as set out in the Mayor's statutory transport, planning, housing and economic development strategies, whilst protecting consumers from the risk of unnecessary cost increases arising from under-utilised network capacity.

We believe it is therefore fundamentally important to begin with a regulatory approach which prioritises well-justified investment, to support a robust and resilient electricity network which is fit to the challenge of meeting London's growth for the benefit of the whole UK. It is also important that the framework includes incentives for network companies to flex investments up and down throughout the price control, and to maximise use of the existing network at lowest possible cost.

It is also important that the framework incentivises the transition to Net Zero in London by 2030 and so we welcome the draft determination's support for £2.7 billion of investment to boost grid capacity to support the rollout of electric vehicles (EVs), heat pumps and the connection of more local, low carbon generation. We also welcome the proposal of £5.2 billion of allowances to ensure that key network assets are maintained, repaired and replaced, and to ensure that networks

remain resilient to future challenges. This is particularly important for London's central activity zone (CAZ) which has the highest network utilisation rates in the country, and which is ultimately reflected in differential costs to consumers.

Below we set out four proposed modifications to the draft determination which we feel would enable the investment that we need in London's energy infrastructure to support London's growth and development and meet net zero targets at lowest possible cost.

1. **Investment flexibility:** it is very important that the regulatory framework builds in incentives to allow network companies and operators to flex investments up and down throughout a price control period based upon independently verified calculations of levels of demand and the interaction with existing network capacity. Such flexibility will also allow capacity to be utilised efficiently and reduce unnecessary costs for consumers from capacity that is not ultimately required in the network. We are concerned that the way that the **Load Related Expenditure (LRE)** re-opener has been designed will not incentivise such flexibility.

Secondly, the re-opener only begins in year three of the price control, in 2025. Network companies will require sufficient time to raise funding for LRE which would likely only materialise in year four or maybe year five at the very end of the period. We therefore propose a re-opener starting from year two of the price control in 2024 which opens annually throughout the period. This will provide sufficient flexibility for operators to secure additional funding for LRE as needs become clearer over time.

2. **Net Zero Reopener:** we agree with the intent of the Net Zero Reopener (NZR) to amend the price control in response to changes associated with meeting variable Net Zero carbon targets. We have two concerns on the NZR: the first of which is that local authorities are not adequately represented on the Net Zero Advisory Group (NZAG), which could mean that local considerations are not duly accounted for in the NZAG's decisions.

The second is that the price control should include a sufficient mechanism to assess net zero projects being delivered by London local government which will require investment in energy infrastructure. It is also unclear how the Net Zero Advisory Group will react to a London-specific investment plan or to a locally generated local area energy plan. We propose that this is taken in to account in the design of the Net Zero reopener for final determination.

3. **Distribution System Operator (DSO) incentive:** London network operators are building a smarter, more dynamic electricity network. They are connecting unprecedented volumes of low-carbon generation at pace and moving away from an historical focus on pure network operation towards systems-wide solutions for the energy grid as Distribution System Operators. It is therefore important that the DSO incentive adequately reflects the scale of the challenge in transitioning to whole-systems solutions.

The current incentive is unequal to the scale of the investment required to successfully transition to a DSO and will not deliver for customers against the measures set out in company business plans. We therefore recommend that the value of the DSO incentive is reviewed for

the final determination, to ensure operators are appropriately incentivised to deliver against the scale of the challenge.

- 4. Low Carbon Technologies uptake:** national climate targets also require a radical shift in the way that everyone in the UK consumes energy. In turn, this will require a significant increase in the volume of Low Carbon Technologies (LCT) including wind, solar, hydrogen and battery storage. The approach taken within the draft determination for normalising the forecasts for LCT uptake does not adequately reflect the speed of LCT uptake in London compared to other parts of the UK. This means that London network operators are not being given the allowances commensurate with the challenge to incentivise the uptake of LCT's at the scale and pace required in London relative to other regions.

The forecasts also do not consider current network utilisation levels which are significantly higher for network operators in London due to population density and levels of peak demand, particularly in the central activity zone. Higher network utilisation also reduces headroom capacity to make network reinforcements to support the growth of LCT's. London has higher costs to reinforce the network due to having a higher concentration of assets below ground than other parts of the country and this is not adequately reflected in the draft determinations. We would urge that the process for approving final investments considers these factors in preparation of the final determinations.

We hope the proposals we have set out will be useful in developing the final determinations, in terms of outlining reforms that we feel could be made to support London network operators to deliver the investment needed for the future in the capital, for the benefit of London and wider UK.

For any questions on the contents of this submission please contact John Kavanagh, Programme Director, Infrastructure: e: [john.kavanagh@businessldn.co.uk](mailto:john.kavanagh@businessldn.co.uk) m:07852 030 305.

Yours sincerely,



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