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Our ref: RIIO-ED2 Draft Determination Response

RIIO-ED2 Team
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Dear Ofgem,

Response to Ofgem “*RIIO-ED2 Draft Determinations*” consultation.

BUUK welcomes the opportunity to respond to Ofgem’s consultation the Draft Determinations which Ofgem published on 29th June 2022. BUUK is the parent company of electricity distribution licensees, the Electricity Network Company (“ENC”) and Independent Power Networks Limited (“IPNL”) who operate as IDNOs principally providing, owning and operating connections to new developments across all the DNO DSAs in Great Britain. Additionally BUUK, through its subsidiaries, provides own and operate businesses for gas transportation, district heating, water, waste water and fibre networks .

It is i with this cross-vector experience that BUUK is in a unique position to benchmark DNO practices and behaviours it witnesses and comment on the impact that price control determinations may have on that role

There is a significant asymmetry of information which makes us unable to comment on the financial assessment of DNO proposals and Ofgem’s assessment. Notwithstanding this, we broadly support the approach taken by Ofgem.

We have not provided specific comments or answers to all of Ofgem’s questions raised across the consultation and the various appendices of the draft determinations, but we do wish to make comments (and have included answers to Ofgem’s questions in appendix to this letter) on four key topics for BUUK:

- Providing timely investment to facilitate new connections and the transition to net zero.
- The transition for the Incentive on Connections Engagement to the Major Connections Incentive;
- The introduction of competition for onshore networks; and
- The DSO function and the future development of this role.

Providing timely investment to facilitate the new connections and the transition to net zero

We are already experiencing increasing number of situations across GB where electricity distribution networks are constrained from meeting the electricity needs of future and existing demand and generation customers. This price control period will play a critical role in creating the right environment where policy decisions can be translated into the tangible delivery of the required investment in networks and industry frameworks that will support the UK in meeting its net zero ambitions for 2035, 2050 and beyond. Such investment decisions not only relate to the capital investment required for constructing networks, but also for the training and development of relevant resources required to construct and dynamically manage network of the future (e.g. in a future world of active network management).

Whilst we agree that where it is not clear what investment may be required in the future, it is appropriate to augment the price control settlement with processes (e.g. the Uncertainty Mechanisms (UM)) to assess and approve additional investment, wherever possible the decisions for economic and future investment should be contained within the main price control settlement. We are concerned that in pushing decisions on such investment, and on the management of infrastructure 'down the road' together with the potential complexities of UMs, and of administering UM processes, may have the effect of delaying or unduly inhibiting the future investment needed to develop the transition to meet a net zero world

Where UMs are the only way to assess future investment, it is essential that the framework to administer UM submissions is robust and transparent and does not have the effect of providing undue regulatory uncertainty, delay, or indeed inhibit such investment. Rather, the process must ensure that it is efficient for both Ofgem and DNOs provides the right incentives and motivations to facilitate investment decisions in a timely manner

Consistent with Ofgem's duty under the Electricity Act (the requirement of the Authority to have regard to "...*the need to secure that all reasonable demands for electricity are met*"), we think it is worthwhile considering whether remedies or incentives should be in place to encourage DNOs to identify areas where investment is required and to develop robust 'high quality' business cases for UM submissions.

Consideration should be given as to what remedies should be in place where DNOs fail to identify circumstances where investment is required and where networks become constrained as a consequence.

Major Connections Incentive

We support the introduction of the Major Connections Incentive within the price control and are keen to work to ensure that this incentive operates to effectively incentivise behaviours and outputs which are in the broad interests of connections customers. We are regular customers of the DNOs' non-contestable services and have been able to build a picture of what we consider to be best practice across all DNOs in the provision of non-contestable (and to some extent, contestable) services. We have engaged with one DNO in sharing this best practice which has resulted in a significant improvement in their performance.

We believe that the introduction of customer surveying as part of the Major Connections Incentive has the potential to bring about significant benefits to customers as it allows for regular feedback and analysis of the performance of DNOs. We note that Ofgem is to provide a guidance document outlining the Major Connections Customer Satisfaction Survey (MCCSS) process and we would like the opportunity to provide further input into this process. Our expectations for this survey are that it will:

- Be undertaken on a job-by-job basis to enable the survey to give statistically significant data;
- Be undertaken in real or near-real time to ensure an accurate representation of the performance of the DNO; and
- Allow the opportunity for the DNO to address any corrective actions arising from surveys (i.e. the data and feedback is given back to the DNO immediately).

Although we do not provide in depth comment of each of the DNOs' Major Connections Strategies as part of this response, it is our view that we would like to see the DNOs provide more tangible actions and deliverable items in their business plans. We agree with the principles and directions that DNOs are adopting but given that this document sets out their 5-year strategy we believe that more detail could have been provided. We are surprised and disappointed that each of the DNOs' plans has passed the Stage 1 BPI assessment.

Increasing Competition for Onshore Networks

As a business whose success is dependent on the competitive market for ownership of distribution network assets we are advocates of competition and the development of competition. We welcome the extension of competition to onshore networks in the way which Ofgem have set out in their Draft Determinations (and other publications). We also agree with the principles which have been set out in to develop competition.

We believe that it is important that, in taking the assessment of competition, especially late competition forward, Ofgem considers the existence of competition in those areas. Where assets are new, they can be installed, owned, and operated by an IDNO. It has been noted that no such projects are planned for RIIO-ED2 but we believe that if the high-value threshold is lowered then some project may be brought into scope and distort a market that is already working. We think it is important that, where possible, the market drives competition for the provision of new assets. Under the existing frameworks for IDNOs this is not always possible, but it must form part of the assessment on undertaking the competitive process.

DSO Activities

BUUK has previously responded to Ofgem's call for input on "*Future of local energy institutions and governance*". In our consultation response we set out our view that the options being explored by Ofgem, and others, will need to evolve and adapt over time but that it was important to establish a framework for a system planner role which operates across all energy vectors (gas, electricity, district heating, hydrogen, etc). we believe that such role should be fully independent and outside the remit of DNOs. We are concerned that retaining such role within DNOs could have undue distortionary impacts on IDNOs

One of the key components to this transition is availability and compatibility of data at all network tiers. We note that Ofgem has proposed the introduction of a new financial DSO incentive. We welcome this addition as it will incentivise the DNOs to deliver, and for customers to be able to benefit sooner. In assessing the DNO performance in this area we think that it is important that Ofgem supports the development of the future frameworks and that DNO actions do not frustrate the development of integrated processes and systems that come under the control of a future IDSO, FSO or other entity operating independent of the DNO,

We have noted that we are in a unique position in the breadth of services that we are able to offer to new developments seeking utilities connections and we also believe that it is important that, in developing the DSO functions and the DSO incentive, that the DNO focus should not be solely on electricity as an energy vector. The entire future picture of GB's energy system is not yet clear, but we know that it is likely to involve an integrated approach across all energy vectors. It is important, at this early stage, not to shut off investment and development of innovation through the insular application of the DSO functions by DNOs.

Notwithstanding our concerns around compatibility and independence of system operation, elements of the proposed DSO activity are rightly funded in order to allow for the transition to net zero. This includes LV network monitoring and more detail in load monitoring at secondary substations. Ultimately, it is in consumers interests to allow DNOs to continue to develop the DSO functions and, as Ofgem have rightly considered, to allow for a degree of flexibility in how the price control deals with the ongoing development and greater degree of separation in the future.

If you have any questions around the content of this response, please do not hesitate to contact us and we look forward to further contributing to development and operation of the RIIO-ED2 price control

Yours Sincerely

Thomas Cadge
Regulatory Charges Manager

Annex 1 – Responses to Questions

Core-Q39. Do you agree with our proposed design of the Major Connections Incentive?

We are generally supportive of the proposed design of the Major Connections Incentive, but we believe that the approach to customer surveys is likely to be key to the operation of the incentive. We are supportive of the incentive to all RMS which have not passed the competition tests and to non-contestable services in all RMS. This approach ensures incentives are targeted at areas where competition is not driving behaviours and DNOs are not unduly incentivised where they are already facing competitive forces to develop services.

It is imperative that the surveys are statistically significant in that they represent the full breadth of activities that the DNOs undertake and that they are carried out on a granular basis (i.e. job-by-job as opposed to a single customer survey for each connection customer in the year). This is so that they are properly reflective of the performance of the DNO and to enable the survey to be utilised as part of the ongoing management of connection activities as well as for developing reporting metrics.

It is our experience that this method of undertaking surveys provides benefits to customers beyond the immediate impact of positive scores and it allows the DNOs to undertake more holistic analysis of areas of failure or pain for customers.

We agree with the requirement to produce an annual report on performance across the DNOs' Major Connections activity. We see this report as fundamental to the performance of DNOs and we agree that this should act as a reputational incentive as it will allow customers to understand the outputs from the surveys.

Core-Q40. Do you agree with our proposed approach to target setting and applying the penalty?

We agree with Ofgem's proposed approach for applying penalties. We believe that this should be pass/fail with the maximum penalty applied at the point of failure below the collar. We do not have any specific comments on the approach to target setting but we believe that the outcome targets are sufficiently stretching if the survey methodology is adequate.

Core-Q41. Do you agree with our proposal to require reputational reporting of timeliness metrics for all RMS?

Yes, we believe that this, along with publication of other quantitative data from surveys etc. will properly inform connections' customers and Ofgem of the work which DNOs are undertaking and how they are performing. This is likely to allow customers to draw more accurate conclusions and in doing so will better inform customers and DNOs to areas which need to be improved in the provision of connections services.

Q9. Do you agree with our proposed position on early and late competition?

We generally agree with Ofgem's position on early and late competition as we have seen the benefits that competition can bring for consumers. We agree that projects eligible for competition under the criteria established should not be funded through baseline allowances and where they might be subject to reopeners then the competition models should be considered alongside the reopener. We believe that late competition should only apply where no existing competitive framework is able to deliver the solutions being identified.

Core-Q24. Do you agree with our proposed design of the DSO incentive?

The component parts of the DSO incentive appear to be broadly sensible, and appear to allow for significant flexibility so as to not incentivise the DNOs to only pursue targets which are set ex-ante. We have some comments on each of the first two components (the outturn performance is considered in the next question

As we have stated in our consultation response to the Major Connections Incentive, we are proponents of surveys which can provide both quantitative and qualitative assessment of performance. However, we believe that the targets, especially with the downside deadband included, are not sufficiently stretching for the DNOs. We appreciate that this is a new and potentially fast changing area of work, but we do not agree that DNOs should be financially rewarded for delivering 8/10 performance.

The makeup of the DSO assessment panel is important to ensure a properly diverse set of views and opinions from an equally diverse set of stakeholders. Again, we think that the bar for incentive revenues is set lower than it could be in this area when allowing for DNOs to recover additional revenue based on a score of anything above 6.

We are keen to understand how the DSO incentive will work in practice and keen to ensure that it delivers the flexibility and adaptability that is required from the current phase of system transition.

Core-Q25. What are your views on the outturn performance metrics and RRE we are proposing to include in the DSO incentive? If you do not support their inclusion, please outline which alternative outturn performance metric(s) or RRE you think should be included in the framework instead.

We are not sure of the value which can be achieved from the flexibility market testing metric in the outturn performance part of the incentive. It is not clear from the draft determinations documentation how this would differ significantly from existing licence obligations and how this would, in turn, add value to consumers. Presumably, if this metric is failed then it would also constitute a breach of SLC 31E?

The network visibility metric is useful and pertinent to the work being undertaken in allowing for more effective decision making to be undertaken in respect of the connection and operation of LCTs, especially to the LV Networks. We agree with the applications of penalties and rewards on this metric.

We question the merit of the incentive around the use of curtailment. We do not envisage, as a result of the Access SCR decision, that many customers will be on non-firm connections as the incentive to do so (high connection charges) has been largely removed. It is only new connectees that are waiting for reinforcement works to be undertaken, and who accept a non-firm connection in the interim, who are likely to be curtailed and this incentive then becomes a measure of the success of Ofgem's Access SCR decision rather than the DNOs' ability to effectively curtail customers.

We have no specific comments on the RREs but note that, in general, reporting is likely to inform future decisions in early development of DSO.