**Hitachi Energy response to Ofgem’s RIIO-3 Sector Specific Methodology Consultation**

**Introducing Hitachi Energy**

Hitachi Energy is an exciting global business with a ground-breaking heritage of innovation in pioneering technologies. As a global technology leader, we serve the energy, industrial, mobility, IT and smart cities sectors. We are a major investor in the UK, with a turnover of £1 billion.

We are advancing the world’s energy system to be more sustainable, flexible and secure. As a technology leader, we collaborate with customers and partners to enable a sustainable energy future – for today’s generations and those to come. In the UK, we are already helping to bring clean energy to 4.5 million homes by connecting the world’s largest offshore windfarm at Dogger Bank to the grid. We strongly believe that the UK can lead the world in creating a secure, Net Zero-ready energy system through investing in technologies to make the energy system more sustainable, flexible, and secure.

**Our response**

**Overview**

There are several areas of Ofgem’s proposals which Hitachi Energy strongly welcomes. We have long argued that Ofgem, as an energy regulator taking a whole system view, must place an emphasis on ensuring maximising value for customers, rather than prioritising the lowest cost solutions. In our view, best value should be the principal objective and assessment criteria, not the lowest capital cost of projects. We believe that best value to the consumer can be delivered through accelerated investment in a decarbonised power system that will avoid the environmental impacts of delay, and by transitioning more quickly away from reliance on expensive fossil fuels.

We are encouraged to see a positive move in this direction from Ofgem, including in paragraph 1.20 of the ET Annex in relation to enabling “effective engagement with the supply chain that will maximise value for money for consumers”. In the context of future systems, this is the right framing because it recognises the importance of long term, broad value over restraining short term costs.

However, we would like to see this framing being used more consistently by Ofgem in the RIIO-3 documents, as ‘low-cost’ still appears several times in the document. For example, the Overview Document is right to recognise the value of decoupling electricity prices from gas prices for consumers, but we would urge Ofgem to apply the frame of “delivering best value” (environmental and social value, as well as financial) for consumers, rather than focusing on reducing costs.

We would also like to welcome Ofgem’s recognition of the importance of aligning with the Electricity Network Commissioner’s recommendations and early and effective supply chain engagement (paragraph 2.8), as well as the commitment to prioritise speed of delivery above competition in some circumstances. Removing regulatory approval from the critical path for projects is also a very welcome development and will help attract investment at the pace required.

**Responses to Questions – Overview Document**

Outputs and Incentives

* **OVQ23. Do you have any views on our proposed long-term approach to embedding climate resilience, including the principles for embedding climate resilience?**

We support the inclusion of climate resilience and agree with Ofgem’s principles. As climate related events become more frequent, and the criticality of electrical supplies increases, it will be essential for the UK’s energy infrastructure to withstand them.

* **OVQ27. Do you agree with our proposals on workforce resilience?**

Workforce resilience is crucial if the UK is to deliver and maximise the advantages from the energy transition. We agree with Ofgem’s proposals to ensure consistent reporting. However, we think the key thing will be to ensure the outcomes from that reporting can be used to encourage the development of skills pipelines. While we understand the premise that this should primarily be the responsibility of the network operating companies, Ofgem may have a role in that to ensure best practice is being followed.

Managing Uncertainty

* **OVQ36. What are your views on our proposal, in principle, to retain the Net Zero and Re-opener Development Fund UIOLI for RIIO-3? What are your views on the types of projects it could fund and how it would interact with other sector specific price control mechanisms?**

We agree with Ofgem’s proposals to retain the Net Zero and Re-Opener Development Fund. We propose considering energy efficiency projects under the auspices of this reopener. Overall, we believe that energy efficiency of the network is undervalued by network operators and Ofgem; it is only mentioned in the Overview Document in relation to consumers. Maximising efficiency across the existing network infrastructure is an important component in achieving net zero and securing a best value system for consumers.

Cyber Security

* **OVQ46. Do you agree with our proposed approach to cyber resilience in RIIO-3?**

We are encouraged that Ofgem recognises that there has been significant variation in the approaches taken by network companies to cyber security, which has been challenging for supply chain companies, who have found themselves having to adapt. We believe that Ofgem’s approach will bring more coordination to approaches, reduce the burden on supply chain companies, reduce costs, and overall lead to stronger cyber resilience.

**Responses to Questions – Electricity Transmission Annex**

Delivery of major new projects

* **ETQ5. What are our views on our proposed cost assessment approach for major new RIIO-ET3 projects?**

We are very supportive overall of Ofgem’s proposals for supporting delivery of major new projects and strongly believe that adhering to the ASTI principles is the right approach. We also agree with Ofgem’s proposed cost assessment approach, which we believe will be effective in reflecting changes in market conditions and protecting against delays whilst maintain competition.

Minimising networks' impact on the environment

Our general comment on this section is that we agree with the retention of the IIG ODI-F during RIIO-ET3. While we understand Ofgem’s concern about increasing costs, the amount of new infrastructure required in this price control period means it is vital that its impact on the environment is minimised in order to protect the environmental gains of net zero.

Energy Not Supplied (ENS) ODI-F

Our general comment on this section is that we understand Ofgem’s shift towards a system that penalises lack of reliability rather than rewarding it. However, we would like to stress that maintaining high reliability will remain extremely important in the future and will become more challenging, as reliance on electricity increases and the network expands and becomes much more complex.

Evolving the RIIO-ET2 approach to cost assessment for RIIO-ET3

* **ETQ38. Do you have any views on how the cost assessment process could address the market volatility and supply chain challenges that the sector is facing?**

The challenges facing the supply chain are well documented, with increasing costs for raw materials and key pieces of equipment such as transformers proving challenging for global supply chains. We would advocate using BEAMA’s monthly indices on costs for the supply chain as a guide to inform Ofgem’s view of the key drivers.