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Our ref: TC/RIIO-ED3 SSMC

RIIO3 Team
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By email only to RIIO3@ofgem.gov.uk

Dear RIIO3 Team

We welcome the opportunity to respond to your consultation on the sector specific methodology for the RIIO-ED3 price control. BUUK own and operate electricity distribution networks through licenced IDNO business, the Electricity Network Company and Independent Power Networks, as well as independent connection provider businesses GTC infrastructure and Power On. All of these businesses are heavily reliant on interaction with the DNOs for, initially, the provision of points of connection to design, construct and connect new electricity distribution networks. Our IDNO licensees then have an ongoing, operational relationship with DNOs to manage the networks in an efficient and co-ordinated manner.

The RIIO-ED3 price control framework is important to BUUK in the way that it structures how DNOs will operate in respect of their interactions with BUUK companies, and we are pleased to be able to provide our views to this consultation. We have answered Ofgem's questions in the appendix and have made some broad comments below.

Ofgem and DNOs are aware of the pressure that is faced to connect both generation and demand customers to the electricity networks and we would like to see the RIIO-ED3 framework acting as a catalyst to drive competition in the connections market allow independent connection providers, IDNOs, and other industry participants to undertake more connections activity to deliver growth to Britain. We think that Ofgem's incentives for connections are likely to have a positive impact on the connections markets, but we also think that more can be done to take the responsibility away solely from the DNOs but making more work 'contestable'.

We note that there is a perception that regional energy planning is likely to be able to deliver benefits of more holistic system delivery and allow DNOs to plan delivery of work. It is important that these regional plans do not inhibit competition and delivery and that they do not act to prevent connections which materialise but were not originally included in regional plans. We do not object, in principle, to the delivery of reinforcement ahead of need insofar as it can be an enabler of quicker connections to customers, but it should not stifle the competitive delivery of innovative solutions on the network as this is not in the interest of connection customers, nor the wider DNO customer base who would pay for such reinforcement through

DUoS. We see a role here for the 'plan and adapt' conceptual model. The needs of the consumer base will not be static throughout the price control period and using a model that emphasises delivery of a plan which is subject to external factors risks sub-optimal outcomes for customers.

We think that there is merit in opening the Strategic Innovation Fund (SIF) to allow IDNO licensees to bid for funding for innovative projects. To date IDNOs have delivered innovative improvements to processes, delivery and management of networks through purely commercial drivers but we think that opportunities for IDNOs to utilise the SIF will enable more innovation opportunities and those opportunities will benefit more customers through sharing of outcomes.

The RII0-ED3 price control period is the price control that will deliver the government's mission for clean energy by 2030 and will continue to accelerate the growth of Great Britain through the connection of renewables and the decarbonisation of heat and transport. It is imperative that it is structured to deliver the best outcomes for customers and competition in connections and adoption of new networks, as well as competition in delivering the reinforcement and upgrades of existing networks have the potential to play a huge role in delivering a successful price control period.

Yours Faithfully

Tom Cadge

Head of Regulatory External Affairs

Long Term Integrated Network Development Plans.

Q1. What are your views on our regulatory guiding principles that will inform the development of accountable investment planning and delivery

The guiding principles are agreeable and appear to be in the interest of customers.

Q2. Are the proposed objectives for the long-term integrated network development plans appropriate?

We do not believe that the proposed objectives for the long-term integrated network development plans go far enough in being clear about what the deliverables are for the plans. We think that it is a fundamental part of any plan objective to be that it creates a plan which is deliverable and meets the need of customers. Whilst we don't disagree with the existing objectives, there is not enough clarity in the objectives to define where long-term plans need to take the DNO networks. I.e. we think that there should be a clear objective in the long term plans that they deliver the needs for network users, and that they facilitate economic growth within the DNO areas over the long-term.

Q3. What are your views on the proposed structure and contents of the plan?

We agree with the proposed contents of the plan but believe that these contents strengthen the case for more objectives as per our answer to Q2.

Q4. Do you agree with the proposed use of the tRESP outputs in the DNOs' network impact assessment?

Given that the tRESP will be produced ahead of the long-term DNO plans, it would seem perverse not to include the outputs in the DNOs' network impact assessment to the extent that the tRESP does not necessarily dictate the plan. DNO plans should utilise these outputs but must be able to drive their plans based on other data, inputs and sources that may be more relevant to their specific plans.

Q5. What are your views of the guidelines for proactive investment decision-making across all DNOs?

We see an important role for proactive investment during this price control period, but we do not think that the proposed guidelines give the necessary clarity and required to spend customer money ahead of need.

For example, we think that it is important to define more clearly what is meant by societal benefit in respect of connection delays. This benefit could be linked to decarbonisation or growth, but societal benefit is a broad term into which almost any scheme can be put.

We also think that the guidelines need to consider the alternative approaches that might be available to deliver the required capacity that does not require investment ahead of need. This could be alternative network solutions such as flexibility or reconfiguration but also must consider how third parties can deliver that investment through competition. If there are delays in connection, then it logically follows that there is a connection customer who is driving the need for investment. Companies delivering those connections to LCTs or to connections with societal benefits should be given the opportunity to deliver and/or invest in the network.

Conceptual models for ED3 Delivery

Q15. What are your views on the combination of mechanisms presented in the two conceptual models? Do they effectively illustrate how different regulatory tolls could be packed to support strategic delivery?

The mechanism presented within the models do illustrate how different regulatory tools could be packed to support the delivery of in ED3. We are comfortable with how these mechanisms illustrate the concept of the models and where they could be deployed.

Q16. In the context of ED3, do you consider that we should put more emphasis on Plan and Adapt or Plan and Deliver — to be more appropriate for achieving the guiding principles set out in Paragraph 3.5? Please explain your reasoning.

We believe that more emphasis should be put on the plan and adapt model. We see this as a more appropriate way of delivering the required outcomes for RIIO-ED3 whilst having the flexibility and adaptability necessary for unforeseeable changes within the period and beyond. We agree that there is some certainty that more investment will be needed during the RIIO-ED3 period but there is also a significant amount of uncertainty on where and how this should be delivered and, notwithstanding the RESP and more effort being invested into location area energy plans, we think that there is more possibility for changes over the price control period and building in adaptability is imperative. Given the rate of change required in the energy market more widely, there are likely to be unknown requirements, unknown technologies and unknown solutions that will materialise during RIIO-ED3 and a model that makes it more difficult to cater for, and adopt new technology is bound to deliver sub-optimal outcomes for customers or increase the cost for those customers.

Q17. Are there additional mechanisms or combinations of mechanisms that should be considered to better support strategic, accountable, and adaptable delivery in ED3? If so, how might they complement or improve upon the models presented?

We think that the tools that have been described in the plan and adapt model can deliver the right outcomes for customers if they are deployed correctly. We think the most important of these is to establish the output-based metric. This output-based metric must account for the needs of future energy customers and should not incentivise delivery in the short term over the long-term, holistic system needs.

Connections

Q18. Do you agree that the connection types of 'minor' and 'major' should be redefined? If so, do you have thoughts on how they should be redefined, via voltage works required, customer type, a blend of the two, or a split not considered here?

We agree that there should be a redefinition of the types of connection as presently there are a wide range of connection which are considered within the major connections category whereas minor connections is a much narrower set of connection types.

Of the options outlined, our preference would be to split by the voltage of the work required. We think the voltage of the work required more closely aligns to the type of work that is delivered and the way that it should be delivered than the customer type. Using customer

type may also be arbitrary and open to gaming where there are mixed use sites. It is much clearer for DNOs to be able to respond and identify improvements if the split is done by volume of the work that is required to deliver the connection.

Q19. Do you have views or suggestions on how redefining connection types, with potentially more types being introduced, will be able to be operationalised at this level of granularity? See Paragraph 4.18.

We believe that there will be operational challenges in introducing this level of granularity and we do not have practical solutions on how to operationalise this.

Q24. Do you agree changes should be made to the MCCSS to increase participation and better reflect the customer journey? If so, what changes do you think are required and why?

We do agree that changes need to be made to the MCCSS to increase participation. We were pleased with the introduction of the survey but, having lived with it, we recognise that changes are required to develop the mechanism. We think that surveys for larger, repeat customers, should be more bespoke for the type of work that is undertaken. We also think that there should be weighting given to these customer surveys which is proportionate to the amount of work that they do within each DNO area (i.e. by capacity or number of applications or a combination of both). Alternatives could be issuing the survey by email to customers as this is likely to increase participation and allow the participants to obtain the necessary information given that some of them will deal with tens of applications for any given DNO.

Q25. Do you agree with the proposals we have set out for changing the incentives for the RMS for the MCCSS for the purposes of encouraging faster and more transparent connections and improving the quality of offers and post-offer services provided by DNOs? If not, what other proposals do you suggest?

We agree with these proposals. We think that it is particularly important to financially incentivise non-contestable work as these are activities which are truly monopolistic (noting that our preference would be to increase the scope of work which is considered contestable and reducing the need for non-contestable work and incentives in connections more broadly)

Q26. Do you think we should financially incentivise the TTC metric in order to accelerate connections and achieve the right outcomes? Are there other changes we should consider? How would any change sit alongside the current incentives?

We are concerned that financially incentivising the TTC could introduce perverse incentives and reduce the quality of connection offers and connections more generally. In major connections, there are generally a number of variables which could delay the project from either side and incentivising the time to connect could reduce the quality of the ensuring connection arrangements. There would need to be caveats or checks and balances to prevent this from happening in the connection process.

Q27. Do you see value in incentivising SLAs/minimum standards? How should it be done and are there any associated risks or impacts?

We have the same concerns about financially incentivising these areas as we do for the TTC more broadly. They can be too prescriptive and fail to take into account nuances of projects.

Q28. Do you agree that we should not pursue the options we have set out that we would not consider further, i.e. incentivising flexibility and the SO:TO incentive? Why?

Yes, we agree not to pursue the options set out that Ofgem would not consider further.

Q29. Notwithstanding the proposals we have set out under 'Redefining Connection Types', do you have alternative proposals for how to incentivise timely connections and improve the quality of service for larger connections?

We think that one of the most important areas in delivering connections is to improve the quality of the offer. We see high quality offers as those which set out the cost and the timescale for the connection where those parameters do not materially change during the delivery of the connection. Developers, builders and investors need to understand these factors when making decisions on developments and we are seeing increasing instances where DNOs are change the price or timescale during the delivery or indeed changing the entire solution. We don't think that this can be in the interests of connection customers, nor economic growth more widely.