THE ASSOCIATION FOR THE BRITISH ELECTROTECHNICAL INDUSTRY

Response to Ofgem's Consultation on DPCR5 – Looking ahead

Introduction:

BEAMA Ltd (BEAMA) is the Trade Association representing companies supplying products and services in the UK's Electrotechnical Sector, and specifically the Power Sector of BEAMA represents principal suppliers of equipment to the UK's Electricity Transmission, Distribution and large Generation sectors.

BEAMA, and it's members, welcome the opportunity to submit this response to Ofgem's Consultation on DPCR5 – Looking ahead.

The views contained herein are those expressed by Members of the Association and put into a consolidated form.

Response:

Before discussing DPRC5, we believe it is important to reflect on DPRC4, and take lessons forward:

DPCR4

Underlying needs:

It is believed that DNO's had resisted investment for too long, plus Ofgem had been slow in recognising the ageing asset base.

Contracting Philosophy:

There was insufficient time or resource to scope the refurbishment work that is required to continue with the traditional contracting approach.

It is believed that the current levels of refurbishment required to achieve the forecast spend agreed with OFGEM will prove difficult to achieve during the traditional contract framework of fixed price / lowest price.
This is reflected in Ofgem's own analysis which shows that capital expenditure is running 20 % below allowable CAPEX.

There is a need for a collaborative / alliance framework with risk and reward incentives and individual Member attempts to engage the DNO's in this discussion have not proved constructive.

Purchase led contracts do not give life-cycle costs, only CAPEX costs. Purchase v Engineering has swung in favour of purchase, which has led to an approach which doesn't fully recognise the benefits to be derived from new technologies, thereby stifling suppliers from developing new products..

Barriers in DPRC 4:

The barriers that currently exist revolve around the reluctance by the client to collaborate and share the drivers.

The DNOs are able to assess and forecast future spending requirements to support their CAPEX needs but are reluctant to share this information with prospective suppliers. This detracts from the ability to employ satisfactory operational and long-term strategies for the market.

Innovation:

Innovation that has been sadly lacking in previous price reviews has had a major revival in DPCR 4 and has been seen to deliver major projects to tackle the challenges outlined in the consultation – we applaud this and based on its success suggest an extension to these schemes to allow greater capacity

DPCR5 – Looking ahead:

BEAMA, and it's Members broadly welcome the approach of Ofgem as set out in their letter date 17 May 2007.

The context of this review must be taken in relation to current world market conditions and global product supply chain challenges.
This response is based on industry experience to date; as suppliers of products, solutions and services operating in a regulatory environment both here in the UK and various markets overseas.
Expectation of the Energy White Paper to deliver some level of certainty on Energy Policy in general and Networks specifically has given way to another round of consultations and analysis. This has delayed spend on several key areas with the inherent uncertainty while policy is still unclear.
It continues to be unclear how a market can design the coherent technical architecture required for a nationally integrated power system. Expectation within the industry of bodies such as the Electricity Network Strategy Group (ENSG) being able to inform government and regulator of appropriate frameworks for the liberalized market to deliver against is still to be proven but was widely assumed to assist this role.
The industry in general provides a substantial amount of resource to work on cross industry working groups at all levels to assist in development of National policy, standards and regulation. It is important that the government and regulator provide similar commitments of resource in both cash and effort terms to ensure the good will of the private sector is maintained and projects in the National interest are taken forward.

Resource constraints are clearly becoming an issue as ramping of capex spend is significantly increased on previous reviews.

As more extension of design life-cycle times are hit due to ageing infrastructure being extended, more emphasis should be placed on allowance for increased costs of maintenance of these items and the application of new technology to assist in this. Whole-life costing should be considered in this regard to establish the most appropriate maintain / replacement agenda.

In particular we would urge Ofgem to incentivise the DNO's in a number of areas:

Longer Term Horizon:

> Suppliers, and in particular manufacturing suppliers, cannot hold together a skilled and competent work force in readiness on an ongoing basis on the basis of a 5 year horizon which translates into some years of action but additionally some years of delay where activity is either diverted to planning the next period, or stops ahead of the end of the current 5 year cycle.

It is therefore believed that a longer term commitment is necessary to allow the industry to have sight of a time horizon that is not interrupted by the current 5 year programme, and we would urge Ofgem to derive a mechanism that provides this.

Relationships with Suppliers:

Procurement strategies that were developed for price cutting are incompatible with a buoyant global market and major infrastructure renewal. Both government and regulator should consider how best to work with the **entire** supply chain to ensure appropriate action is taken to mitigate these risks.

The increase in spend and the age of the asset are driving the need to work in a more collaborative manner with suppliers and contractors to develop new methods of working.
The sharing of the risks and rewards within a collaborative contract framework has shown in other industries (e.g. Oil and Gas) that extraordinary results can be achieved in a relatively short period of time.

New Technologies:

In the industry we are often challenged with the introduction of existing technology that is tried and tested in other markets but is restricted in deployment by **perceived** regulatory, environmental or economic considerations in this country.
This has resulted in lost opportunities in terms of key indicators such as CML, CI, etc.
Following on from the previous point, new and innovative technology therefore has major hurdles to overcome when considered purely against the risk and reward offered in previous regulatory structures. This has been clearly assisted by the current IFI and RPZ approach in the last review

DNO's should be encouraged to evaluate and utilise new technologies, and this should be placed on a longer term foundation. New products are currently evaluated via the Energy Networks Association, and there should be a mechanism for products to be brought forward to the market to ensure that within any 5 year review period DNO's have at their disposal a rage of products – not just those that reflect previous technologies.

Sustainability:

DNO's should be incentivised to look beyond immediate purchase cost, but include a whole life costing approach. This should examine the elements of cost that have to remain within the DNO's versus those that are passed through to their customers.

Members also believe that Ofgem can also play a part in this:

Monitoring of DNO implementation:

Members believe it is important for the Distribution Network Asset base in the UK, that Ofgem takes a proactive role to ensure that expenditure plans are delivered. We welcome the reviews that Ofgem has introduced under DPCR4, however the lag between expenditure and reporting should be reduced such that corrective action, if necessary, can be undertaken during the current review period, rather than at a much later date.

Other issues we believe Ofgem should take account of:

Supply Chain issues:

Since the previous price review the raw materials for the manufacture of many of the products used by utilities have undergone major price increases due global demand significantly outstripping supply.

Increased activity in response to ageing infrastructures in the developed world and global climate change around the world has led to pressure on the supply chain for some key elements of utility infrastructure. This, in turn (compounded by the point made above), has extended lead times on many of these key elements.

Skills:

Skills to assess and deploy the new and innovative technologies as well as those to maintain ageing assets are increasingly coming under pressure due the demographics of the industry currently and the supply of new talent into it going forward.
Industry is responding to this challenge but both the response and lead times cover greater than the current 5 year regulatory cycle.

It has been recognised that industry needs to work closely with government to develop appropriate resource feed from school leavers, the results of this will be seen in eight to ten years. Further, development of appropriate training and continuous professional development once in employment are key actions in this area that require up-front investment and lead times that cover more than one regulatory cycle.

Response to questions:

Have we captured the key strategic issues?

Not all.

BEAMA believes the concentration on the economic business model for the DNO is missing major supply chain challenges. See above points.

The importance of interoperability and integration on a national scale will be ever more important going forward. eg The concept that large residential micro-generation (a mix of micro-chp, wind, solar and possibly fuel-cells in the future) may interact with regional community based generation and central generation, via the distribution and transmission network, to reduce output of fossil fuel plant in favour of renewable, can only be realised if generation, T & D networks and demand side participation (the so called "intelligent home") are configured and operate in real-time as a total system architecture. The ENSG could provide a vital link in this respect.

Environmental issues will, in the future, play an increasingly major role in the weighting that end customers will demand with respect to best value for the customer. The cost of extended public debate and delay to implementation of major projects will also need to be considered in the equation when considering what constitutes best value for the end customer. Technology is currently available to mitigate many of the risks identified by concerned groups, such as energy efficient or less visually impacting solutions, while increased R,D&D effort could offer other options for the future. It is imperative that efficient use is made of current technology and investment is made in technology and applications to deliver the future mandated goals by the European Union and National Governments.

What changes should be considered to the role and responsibilities/obligations of distribution businesses?

As new market opportunities are implied by the movement to Active Networks it is highly likely that new market participants will enter an already complex trading situation. E.g. Aggregators for residential micro-generation, Service based rather than commodity based operators, etc.
In order to facilitate these sorts of market evolutions the five year economic regulatory process may fail to make allowance for technical functionality needed now to allow these to flourish in the future.

How can we build on or make best use of the range of developments and initiatives set out in paragraph 10 above?

Unfortunately individual companies, which are regional, can not have a major impact on numbers of school leavers entering engineering. In order to deliver this much needed increase National institutions, government and regulator have the opportunity to work with business to address these issues. It is no longer acceptable for the Government and regulator to say this is purely a business problem. The industry is aware of its role in promoting Power Engineering via routes such as the Power Academy, Research Academy and Power Sector Skills Strategy Group. It requires recognition and funding to achieve the growth goals identified.

How can we simplify and refocus the incentive package to address future requirements?

The incentives need to be considered not just from an economic perspective, there is a need to consider the technical, environmental and societal impacts in a coordinated manner. A more holistic approach both in supply chain terms as well as network infrastructure could yield major gains to both customer and business alike. A possible option would be to use the one-off incentives indicated in para. 14 of your letter to promote better use of the supply chain management issues, technical engagement, etc.

Do you agree with the suggested process and timetable set out, both for work in 2007 and for the review? What should we do differently?

The customer survey could be widened to canvas the views of different stakeholders in the supply chain, in this way a more inclusive picture would be captured. Further, it is difficult for customers to know what is possible or achievable based only on what has gone before. The vision of the "SmartGrid" of the future is not yet well understood from the customer perspective so it is unlikely they will know what new services could be on offer from a more intelligent Grid.

The impact of European mandatory targets and the ***urgency*** *this implies for the resolution of some major technical issues from central, regional and distributed generation through transmission and distribution networks to demand side participation is not evident from the proposed schedule. If 2020 targets are to be achieved activity will have to be substantially increased and now.*

For further information please contact:

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