RPI-X@20 consultation

Ofgem

By email RPI-X20@ofgem.gov.uk

Dear Sir/ Madam,

RenewableUK consultation response to Ofgem Emerging Thinking – Regulating Energy Networks for the Future: RPI-X@20 Ref 5/10

About RenewableUK

RenewableUK was established in 1978 as the British Wind Energy Association and is the representative body for companies active in the UK wind, wave and tidal energy market. Its membership has grown rapidly over recent years and now comprises over 500 companies, representing the vast majority of connected wind, wave and tidal capacity. The UK has a rich variety of renewable energy resources and the largest wind, wave and tidal resources in Europe. These resources must be exploited to meet UK, European and Global needs to reduce greenhouse gas emissions and avert the runaway effects of global temperature rise.

Introduction

Our views are focused on the electricity networks. Our response is in two sections, the first section is an Overview and second section deals with each of the questions in turn.

Overview

The GB electricity market has developed to provide effective competition in generation and supply. At the supply side electricity consumers have a choice of supplier and can select their product based on the fuel mix disclosure. In generation and in recognition of the impact on the atmosphere of CO2 emissions and the risks posed to the climate and all that follows, measures have been gradually introduced to recognise the cost of carbon and the value of alternatives in the electricity generation. These measures include the European emissions trading scheme, the renewables obligation, the feed-in-tariff and the EU Renewables 2020 target.

However, in order to enable the generation and supply markets to function, networks are required to deliver the product from producers to users. If the networks are not available when needed the market cannot function effectively and there are no alternatives available. It is therefore imperative that networks are developed, managed and operated to deliver the low carbon economy.

Furthermore the electricity networks will be asked to do even more in the future. The Committee on Climate Change foresees a growing demand for electricity to provide heating and transport in the low carbon economy. At the same time the carbon intensity of the electricity must fall sharply, effectively decarbonising over the next 20 years.
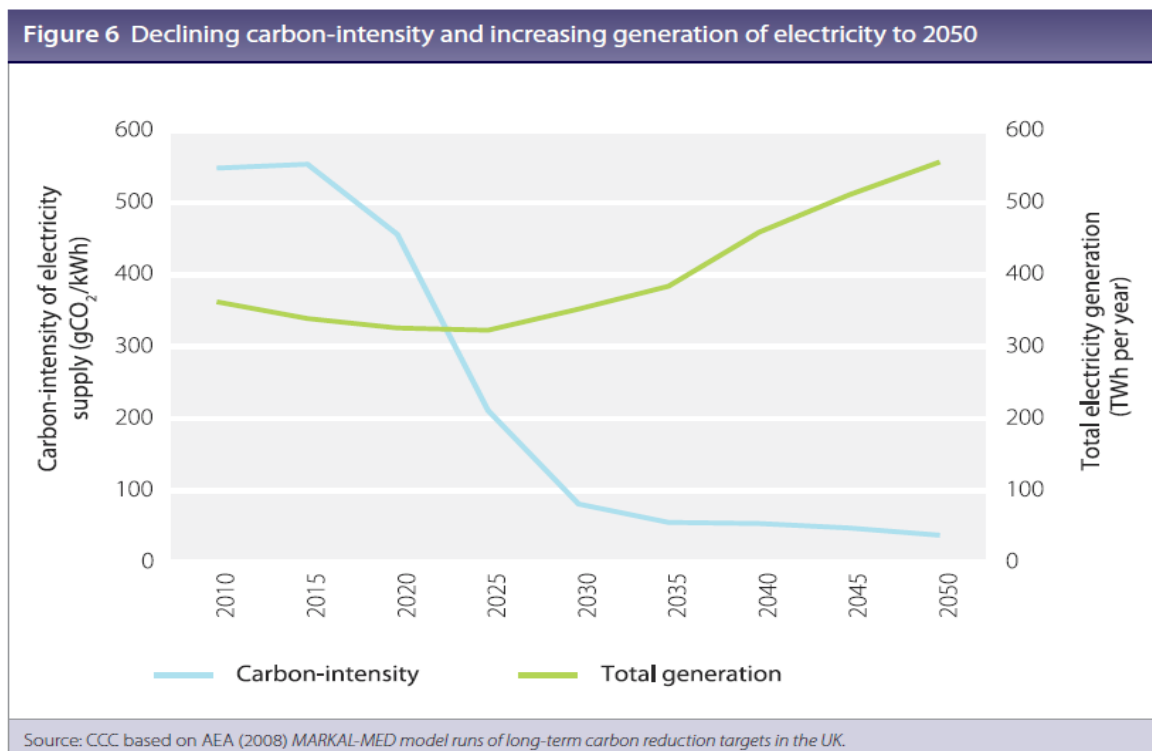

Figure 1 Committee on Climate Change – projections for electricity.

RenewableUK is firmly of the view that the monopoly network owners must be incentivised to deliver the UK, European and International targets for CO2 reduction. Whilst we accept that Network / System operators may have a limited role in proactively delivering the outcome, they can very easily frustrate and delay progress through inaction and/or inappropriate actions.

There is a danger in seeing networks in isolation and in regulating their carbon impact in isolation from the role they perform. Networks are there to deliver electricity from generators to customers and their carbon impact must consider the amount of carbon they "carry" from generation and the energy wasted by demand end users as illustrated in Figure 2.
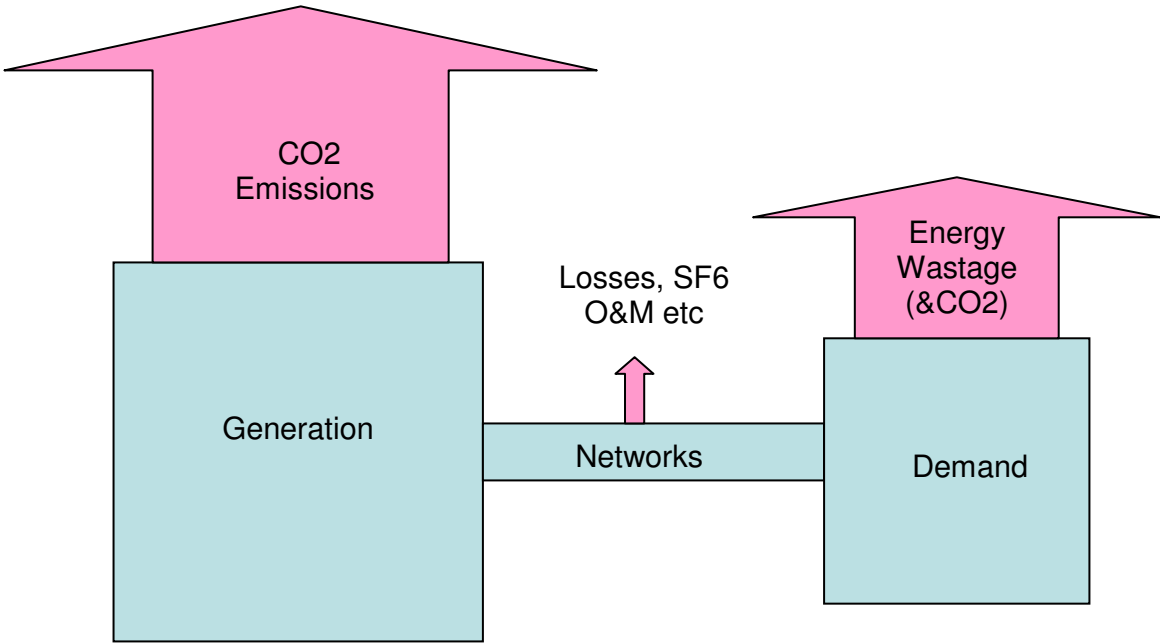

Figure 2: Qualitative greenhouse gas impacts of electricity industry

If networks are not available to connect low carbon generation sources, or to allow customers to switch from fossil fuels used in heating and transport to low carbon electricity, they will have frustrated the role of markets and government in delivering the low carbon economy.

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Response to Specific Questions

Chapter 1

Question 1: Do you think our desired outcomes for the future regulatory framework are appropriate? Are there any we have missed?

> We welcome the recognition that delivery of a sustainable energy sector including the 2020 targets is a desired outcome. In our Overview section above we have highlighted some of the challenges, impacts and necessary outcomes.

Question 2: Do you agree that we need a fundamental change to the existing 'RPI-X' frameworks to ensure these outcomes are delivered?

> To deliver the low carbon economy we need greater investment in the networks than has been the case to date and therefore RPI-X is no longer appropriate.

Question 3: Do you think the suggested new framework is the best way of delivering these outcomes in the future? Are there any aspects you would change? Have we missed any key aspects?

> It is important that relevant measurements and data in relation to decarbonisation of electricity, heat and transport are collected very shortly in order to provide benchmark data for regulation and incentives.

Chapter 2

Question 1: Do you agree that a new regulatory framework should focus on delivery of desired outcomes?
> Yes.

Question 2: Do you have any comments on the categories of outputs related to these outcomes?

> Of the six outcomes listed, the networks already have experience and incentives, legal or regulatory to deliver five items i.e.
> - Reliability
> - Safety
> - Conditions for connecting network services
> - Customer satisfaction
> - Network related social obligations.
>
> Environmental incentives are there to a degree but focus on the limited impact of networks in isolation (see figure 2) and not on the overall impact of the electricity generation and supply markets in which networks play a crucial role.
>
> Environmental targets must include the outcome of decarbonising of the electricity system, reducing end use wastage and converting fossil fuel heating and transport to low carbon electricity. We assume this is what the term "delivery of low carbon energy services" means.

Question 3: Do you have any comments on how these outputs should be incorporated into the new regulatory framework?

> Output should have rewards and penalties associated with them and must be strong enough to influence companies' behaviour, especially as other regulatory incentives may drive opposing behaviour.

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Chapter 3

Question 1: Do you agree that it is appropriate for network companies and Ofgem to improve their engagement with stakeholders as a way of improving the quality and legitimacy of decision making? Do you have any ideas on how to improve engagement by network companies and Ofgem?

> RenewableUK can and does represent its members in response to consultations and user forums; though resources are limited given the propensity for industry to continuously make changes to rules, regulations and charging.

> There should be engagement with the Committee on Climate Change in particular on sustainable energy.

Question 2: Do you think we should consider introducing a third-party merits-based right to challenge our final price control proposals?

> No specific views at this stage.

Chapter 4

Question 1: Do you have views on our suggestion that financial commitments could be provided for longer than five years for some elements of the price control? What would be the appropriate length of this partial longer period? To which aspects of the control might it be appropriate to give a longer-term commitment?

> Given the long term goals of EU renewable energy targets and the steps to the 2050 target of 80% cuts in greenhouse gases, we believe some longer term elements would be valuable.

Question 2: Do you have views on our suggestions on what business plans might look like in the new regulatory framework?

> No specific views at this stage.

Question 3: Do you have comments on our ideas on how efficient costs might be assessed in the new regulatory framework?

> A key outcome is the amount of carbon transported by the networks in terms of gCO_2/kWh. At least one measure of efficiency should therefore be the reduction in gCO_2/kWh per £ spent by licensees.

Question 4: Do you have comments on our ideas on how efficient long-term delivery might be incentivised in the new regulatory framework?

> No specific views at this stage.

Question 5: Do you have comments on our suggestions of how the new regulatory framework might encourage network companies to anticipate and deliver on the needs of existing and future consumers and network users?

> As pointed out in our Overview, late delivery of new network assets threatens the delivery of the low carbon economy. We disagree with the wording in para 4.31 "the main risk… is that infrastructure may …be underutilised". Anticipating needs will necessarily be

imperfect and so some assets may not be fully utilised immediately, with an associated cost. On the other hand, late delivery of network assets will severely damage the low carbon economy with generally much larger economic impacts. We would expect the new regulation to focus more on the outcome - decarbonising electricity - and less on micro managing each incremental investment.

Question 6: Do you have views on our ideas on how the interactions between charging and price review incentives might be taken into account at price reviews?

No specific views at this stage.

Question 7: Do you have comments on our suggestion to treat companies differently at the price control, both in terms of process and incentives, reflecting planning and delivery performance?

The different licence geographic areas of network companies have very different renewable energy and low carbon resources. Therefore outcome based regulation will need to manage these different opportunities, as regulation already manages differences in customer bases, costs and geographies.

More importantly, RenewableUK is of the view that there should be some <u>joint incentive</u> on all electricity networks and system operator to deliver the decarbonised electricity sector. In this way there will be more joined up thinking, e.g.
- system operation to manage transmission constraints;
- distribution network planning and operation to transfer power at peak production to end customers (as opposed to curtailing generation);
- Demand side management systems contracting for multiple services in the electricity market, for ancillary services and for the local network.

This joint incentive would provide a reward to all network/system operators for delivery of the low carbon economy in addition to rewards for those network operators who were germane in the process.

Question 8: Do you have views on our suggestion to open up some aspects of delivery to competition?

We welcome more competition in the delivery of network services. We are supportive of measures such as competition in connection and IDNOs. In some cases private networks and connections can be more innovative and can prove more cost effective and can show opportunities for regulation to improve and develop.

Question 9: Do you have comments on the design of a cross-sectoral time-limited innovation stimulus that is open to a range of parties?

No specific views at this stage.

Question 10: Do you have comments on our straw man on how we would embed our financeability duty into the new regulatory framework?

No specific views at this stage.

Chapter 5

Question 1: Do you agree that a new regulatory framework can deliver our desired outcomes within the existing industry structure?

> Delivery of the low carbon economy is a critical issue over the next four decades and in electricity over the next two decades in particular. The regulatory structure must ensure that networks are actively involved in that delivery, if not it is most likely that they will block the delivery.

Question 2: Do you agree that it is appropriate to encourage network companies to work with others to identify cross-sectoral solutions to the challenges the sector faces?

> Our view is that cross-sectoral approaches can have advantages. E.g. Network operators have contacts with all customers in an area, whereas suppliers have contact with only a subset of customers. Network operators are therefore in a unique position to engage with all customers in an area.

> A good example of positive cross-sectoral activity is the ENSG 2020 vision for networks.

> However, RenewableUK would be concerned if network operators were to develop commercial activities that conflicted with some of their users or customers.

> Our proposals for joint incentives (Chapter 4 Question 7 above) on all network operators would assist this cross-sectoral approach.

Question 3: Do you agree that the regulatory framework should ensure energy network companies facilitate effective competition in energy services?

> Our view is that network companies should facilitate such competition.

We would be pleased to discuss our response further.

Sincerely,

Guy Nicholson
Head of Grid, RenewableUK.