

Ofgem,
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Date: 23/11/2010

Dear Anna,

RenewableUK consultation response

RenewableUK (formerly the British Wind Energy Association (BWEA)) is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 650 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies.

Overview:

RenewableUK welcomes the recent development of the RIIO framework by Ofgem. In particular we welcome the setting out of objectives which require network companies to play a full role in the delivery of a sustainable energy sector, in a manner both cost effective in the short and long term. The RIIO decision document references the primary driver of change in today's UK energy system to be the need to decarbonise electricity supplies by 2030 (see figure 1), and the delivery of the low carbon economy in line with 2050 emission targets.

We agree with Ofgem that innovation can play a key role in enabling network companies to support the delivery of the low carbon economy. However the extent to which innovation successfully supports RIIO's objectives will, to a large extent, depend upon the how innovation stimuli policies interact with the policy architecture of network price controls, and related outputs. We are concerned that insufficient emphasis on the deployment, rather than development or demonstration, could delay the provision of the benefits of innovation, and lead to the wrong projects being innovated in the first instance. We recommend innovation and the wider low carbon economy objectives would be well served by the inclusion of primary output based on low carbon energy flows within RIIO-T1.

Specifics:

Ofgem requested details of what innovation might be required to help deliver the low carbon economy. We have identified some items where network operators can act to help deliver the low carbon economy, and thus areas where innovation might usefully aid the delivery of RIIO objectives:

- Connect generation more quickly;
- Share reinforcements between new generators;
- Introduce tariffs to encourage use of constrained renewable sources;
- Introduce tariffs to minimise network investment requirements for renewables delivery;
- Make anticipatory investments in networks so that generation connections can be delivered when generation is ready;
- Smart grid and active network management scheme to facilitate connection;
- Provide faster connection offers and more certain timescales and costs;
- Provide more information on connection costs and opportunities for Distributed Generation (DG);
- Encourage Demand Side Management (DSM) to reduce network reinforcements and to use available DG locally and reduce constrained DG;
- Change voltage control schemes to allow more generation onto 11kV networks without voltage rise issues;
- Encourage new demand connections to reduce their supply capacity by passing on lower costs / faster connections when DSM and DG measures are incorporated in new customer developments;
- Identify “worst customers” in terms of carbon footprints and provide guidance / support and encouragement – including with third party providers – to reduce energy usage;
- Find ways of providing more electric vehicle charging points without network reinforcements;
- Identify means of connecting heat pumps whilst minimising network reinforcements;
- Permit prioritised roll out of smart metering for DSM sites.

We note that the very nature of innovation means that it is difficult to predict all possible actions that may be taken or required to meet current RIIO objectives.

Incentivising deployment for the benefit of the wider Sustainable Energy Sector

We recognise Ofgem has considered closely the need to sufficiently encourage research, development and demonstration (R,D+D), however it is the deployment of the solutions that is key to meeting overall objectives. We recommend that any Ofgem innovation programme should consider R,D,D+Deployment (R,D,D+D) to fully optimise the use of stimuli funding.

We would suggest the benefits of innovation can be categorised in two ways:

Category (1): Save the network companies money;

Category (2): Save the network company customers money.

In the instance of Category (1), networks are naturally incentivised to deploy innovative solutions. However the realisation of Category (2) benefits could be uncertain if network companies are insufficiently incentivised to deploy costly innovations which only benefit others, e.g. network customers.

In the context of the RIIO objective to deliver the low carbon economy, and the understanding the overwhelming majority of carbon emission saving opportunities exist within the generation and demand markets (i.e. network customers), we would emphasise that Category (2) benefits are arguable where proposed innovation stimuli could hold most benefit. In terms of emissions, the impact of the generation market is currently over 50 times greater than that of the monopoly network companies.

Avoid overly prescriptive outputs – High level outputs support greater flexibility

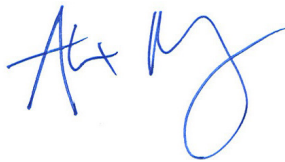
In the context of innovation being hard to predict, or indeed there being a desirable requirement for policy incentives to encourage flexibility in the way future innovative solutions are realised, we recommend Ofgem does not risk micro-management. Overly prescriptive incentives (including innovation funding or price control incentives) will risk perverse outcomes (e.g. constraining the development of much needed solutions) and should be avoided.

It is highlighted that the agreement of business plans, between Ofgem and network companies, can be a key component via which innovation can be embedded within the standard practice of monopoly network companies. Whilst we would agree with this potential, we are not clear how Ofgem will identify and agree business plans as sufficiently aligned with low carbon objective where there does not exist a primary incentive driving pro-active and related network contributions. We would recommend network companies are very innovative organisation when sufficiently financially incentivised. Network companies, together with third parties, are best placed to identify opportunities to innovate. Without networks being actively encouraged to present solutions, we recommend Ofgem will find it overly challenging to promote optimal network company engagement with the stated expectations.

We are aware the contribution of organisations not traditionally active in networks is desirable in meeting future challenges, and delivering innovative solutions. However we would recommend the vested interests of monopoly network companies could contribute to the complication of independent third party involvement. How can innovations by third parties which will assist the low carbon economy be incentivised if the innovations require purchasing by, buy in of, or co-operation with, network operators in order to work or be deployed?

We would recommend the appropriate transition from LCN Fund to innovation activities beyond 2015 could be usefully supported by proposal currently under consideration within RIIO-T1 discussions – the use of a primary output based on low carbon and renewable network energy flows. The high level nature of this proposed output would both support RIIO objectives for network companies to take account of the wider energy sector carbon saving opportunities, and support the deployment of innovative solution whilst respecting flexibility of approach.

Yours sincerely,



Alex Murley, Head of Technical Affairs for RenewableUK

ANNEX 1

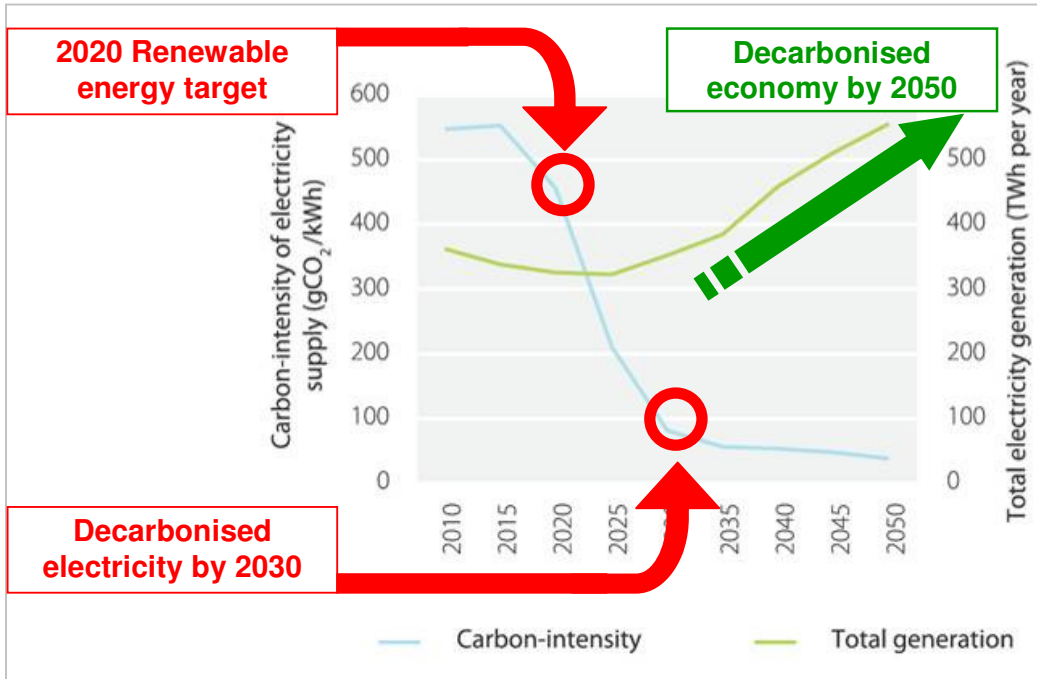


Figure 1: Decarbonisation of electricity – The Committee on Climate Change

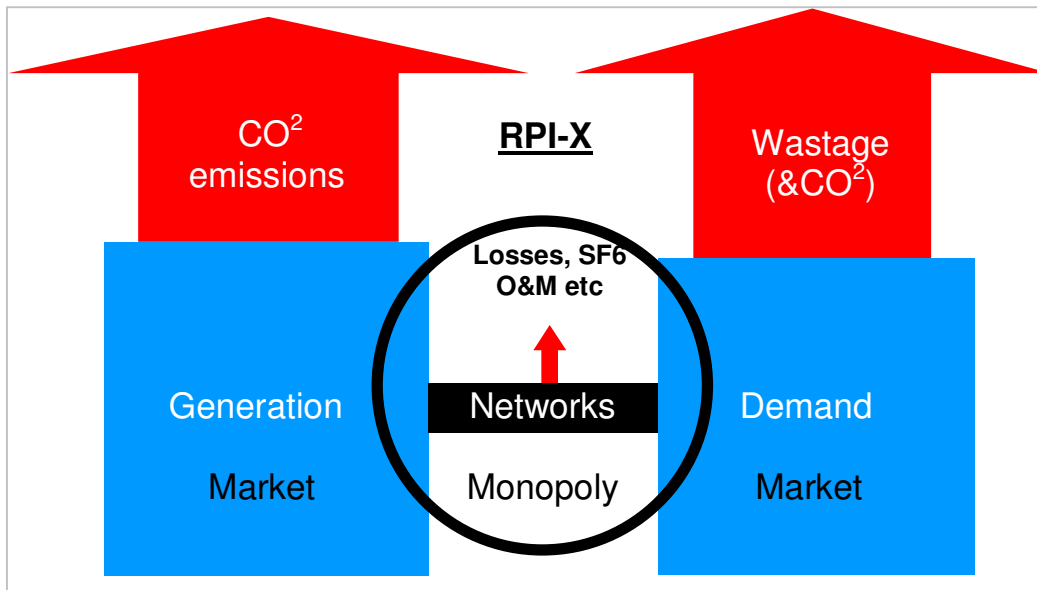


Figure 2: Network exist to connect generation to demand, RPI-X historically focused on minimising network emissions without account for the wider energy system.

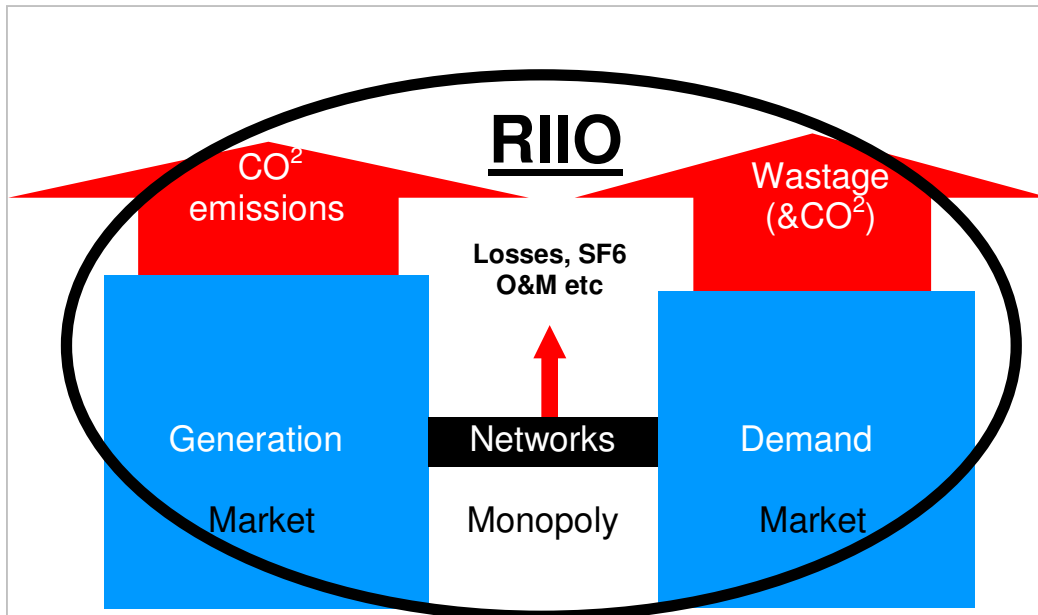


Figure 3: RIIO framework requires networks to take account of the wider system, playing a full role in the delivery of a sustainable energy sector, and the low carbon economy.