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Open letter consultation on the development of gas and electricity innovation stimuli

Anna,

SmartestEnergy welcomes the opportunity to respond to Ofgem's Open letter consultation on the development of gas and electricity innovation stimuli.

We agree that Britain's gas and electricity industries need to investigate the challenge to meet the demands of moving to a low carbon economy and meeting our renewable targets whilst maintaining safe, secure and reliable energy supplies. Networks will indeed need to be smarter, given that electricity generation will be more intermittent/despatchable locally and demand will be more actively involved.

We also recognise that for innovation related to the wider sustainable energy sector where the commercial benefit of the innovation may not be clear, network companies may not have a strong motivation to pursue innovation in a timely way.

We share Ofgem's expectation that many elements of the RIIO model should help promote technological, operational, commercial and charging innovation. The last of these is just as important as the others, but could easily be forgotten about given that the emphasis of projects is to help understand the new technologies, commercial and operating arrangements.

One of the most important innovations required to facilitate a low carbon economy and securing supplies as efficiently as possible in the electricity transmission and distribution sectors is highly sophisticated and accurate pricing. To encourage the optimal siting of demand and generation the price signals must be precisely cost reflective. In a world of SmartGrids, this should be achievable but thought needs to be given at this stage as to how exactly it can be developed. It would be very unsatisfactory if, after all the money that is being spent on research projects, demand located close to generation were still only able to be charged standard Line Loss Factors (LLFs) and Distribution Use of System (DUoS) as if they were at opposite ends of the network.

All companies who are seeking funding should, therefore, include in their business plans details of how the flow of electricity can be measured and reported on over specific distances such that the calculation of DUoS and Line Loss Factors can be more scientifically informed. Otherwise, the full benefits of such developments will never be fully understood.

In our opinion it is also very important that, in consideration of the funding of innovation stimuli, Ofgem makes use of joined up thinking with, for example, Project TransmiT and the initiatives which will spawn therefrom.

We welcome the fact that, within the RIIO model, Ofgem have extended the innovation stimulus beyond network companies by allowing suitably qualified non-network parties to develop new and innovative ideas for network development. It is important that as much funding as possible is given to independent projects and not to large vertically integrated ones which already have both distribution and supply divisions. In the longer term it would be highly undesirable if the projects which have been researched and developed are only capable of being taken forward by such large, vertically integrated companies. This would not be good for competition. Indeed, when considering the allocation of funding, and in order to create positive discrimination in this area, there should be a very strong inverse correlation between the amount of funding made available and the size of the distribution/supply businesses.

We are also of the view that in allocating funding, Ofgem should be mindful of the fact that, in the longer term, it will be essential that systems and companies should be able to share data and have a common infrastructure. It would be very unsatisfactory if funding were to go to companies who developed systems that locked out competition.

Should you require further clarification on this matter, please do not hesitate to contact me.

Yours sincerely,

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