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Ofgem  
9 Millbank  
LONDON  
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Dear Hannah,

### **Way forward for RIIO-ED1 consultation**

1. Thank you for the opportunity to respond to Ofgem's latest consultation, the open letter on the way forward for the next electricity price control review, document 15/12. As a large integrated energy company in Great Britain that does not own any network interests, Centrica is in an ideal position to provide an unconflicted perspective on the RIIO process and offer our thoughts on the Electricity Distribution Network Owners (DNOs) delivering consumers' value for money.
2. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage. We have structured our comments to answer the questions posed in Ofgem's open letter.
3. Network charges are an increasingly important area of cost for British Gas, with our customers paying £0.8 billion per year in electricity distribution charges alone. At a time of continued concern about the prices customers face, British Gas is committed to ensuring that our customers get the best value for money from the services we provide and those we procure on their behalf.
4. We agree that accommodating low carbon technologies in a timely and cost effective way should be a key objective for RIIO-ED1. We strongly believe that suppliers need to be at the heart of this, working with DNOs to provide innovative solutions to the many diverse issues that will need to be faced in this control. Suppliers are at the forefront of delivering Smart technology in the customers' homes and customers' interests are the heart of all we do as a business. We are therefore perfectly placed to work hand in hand with the networks to deliver solutions that will maximize customer engagement, as well as satisfying the technical

requirements of the electricity networks. Thus, suppliers need to be fully involved in developing the most cost effective solutions.

5. We know significant changes will need to be undertaken by the energy industries to fulfill the 2020 low carbon targets and all industry players will have a role. The level of change required is uncertain, particularly the nature of technology required and where on the network it will connect or be utilised. We do not believe that extending the price control period past 2020, i.e. more than 5 years, will benefit consumers given the extent of uncertainty facing the networks. We find it hard to see how network planning can efficiently manage the impact of smart meters, low carbon generation and demand side management on DNO networks.
6. We believe there are many lessons to be learnt from RIIO-T1 and GD1, particularly in the level and quality of information provided to the industry. This was to be expected from the first iteration of the RIIO process and presents a great opportunity for the DNOs to make improvements. Our recommendations for the DNOs' business plans are discussed in the further stakeholder feedback section at the end of the response.

**Do you agree that ensuring that DNOs accommodate low carbon technologies in a timely and cost effective way should be a key objective of RIIO-ED1? Do you have any thoughts on how we could address this?**

7. We are very active in partnering with the energy networks to innovate, and we are keen to continue having third party access or partnerships with the electricity networks. We expect Ofgem and the DNOs to continue to enable this in ED1, utilising the suppliers' deep understanding of customer requirements.
8. We are the leading supplier rolling out smart meters; we are also members of the Smart Grid Forum, SmartGrid GB industry stakeholder group and the Smart Demand Forum. Much of the policy around Smart Grids and push for innovation is being directed at the DNOs. We believe it is in the interests of consumers for suppliers to be fully involved in the policy and funding for the accommodation of low carbon technologies on electricity networks. Smart meters represent the first step towards Smart Grid, providing valuable data on the state of the Low-Voltage network that is currently unavailable. Utilising the existing smart meter roll-out as a data source would be more cost-effective than installing network monitoring on feeder lines, delivering value for money to consumers as a consequence.
9. Many suppliers are actively involved in promoting low carbon technologies, in accordance with government programmes such as RHI and Green Deal, but there are concerns that some projects are denied connectivity by DNOs. We would like to see clear and documented reasons for refusing connections to low carbon providers, with notification to Ofgem. Refusal of connections interferes with our ability to meet licence requirements.

**Which of the DCPR outputs and incentives do you consider to be fit for purpose, or require minimal amendment, for RIIO-ED1?**

10. In order to assess this fully we would require detailed performance against outputs and incentives, both to date and forecast for DPCR5. We recognise that the DNOs make much of this information available routinely, but this does not include performance under IQI, for example. We would request that the publication of performance against outputs and incentives is made routine, on at least an annual cycle, for all network companies.
11. Whilst we still believe that it is important that DNOs are incentivised to reduce losses across the network, the current losses incentive scheme is clearly not fit for purpose. DNOs have already received substantial windfall gains under the DPCR4 scheme, with little evidence of any reduction of carbon emissions. In addition, DNOs have recently been given the opportunity to restate losses for periods of poor performance. If DNOs are permitted to retrospectively alter performance that was measured as specified by the scheme signed up to by the DNOs, to avoid penalties, this must bring into question the symmetric nature of incentive schemes.
12. We would be keen to work with Ofgem and the industry on the specification of a new incentive scheme. Ofgem will need to lead the debate on incentives, reviewing performance in DPCR5, engaging with stakeholders and understanding the detailed mechanics to assess the impact of any proposed changes.
13. Smart meters will be providing detailed data on any network faults. We would like to see that translated into commitments to a faster response and repair time within the Reliability Output.

**We welcome respondents' views on how we can improve the cost assessment, particularly with respect to the expenditures that will be proposed in RIIO-ED1.**

14. We welcomed Ofgem's analysis of the initial business plans in GD1 (compared to the first three years of GDPCR) and hope this is continued for ED1, particularly as the comparison data is unavailable to us. We hope that the electricity networks will continue to show efficiency / productivity savings and that the recent purchase of Central Networks by WPD does not undermine the scope for delivering comparative efficiency wins for consumers.
15. We will continue to rely on Ofgem to carry out considerable benchmarking analysis to ensure consumers share in the productivity gains and efficiency improvements that DNOs can reasonably be expected to deliver.

16. One key aspect will be to fairly consider demand side response (DSR), through aggregators or suppliers, as a lower carbon, lower cost alternative to grid reinforcement. Central to delivering effective DSR will be introducing financial incentives for all DSR providers. In this regard, we would like to see Ofgem outline clear requirements in assessing DSR as an alternative to grid reinforcement.

**Do you think the ED1 price control period should be 8 or 9 years?**

17. We believe a five year price control period is best for consumers, as there is too much uncertainty to allow the networks to develop robust plans for eight or nine years. A control period of eight or nine years (without a comprehensive halfway review point) raises the risk of windfall gains or losses for networks and consumers.

18. We see the significant changes over the next decade as the rollout of smart meters, connection of low carbon technology and the evolving demand side response. These will require the DNOs to be more flexible in their approach to reinforcement plans or investing in additional capacity. Therefore with a five year price control period consumers will face less risk of stranded assets and underutilised equipment.

**We welcome feedback on the business plans and proportionate treatment process for RIIO-T1 and GD1 and any improvements we can make for RIIO-ED1.**

19. One of our most significant areas of concern is the continued role of fast tracking. As originally conceived fast tracking was supposed to deliver benefits to consumer by giving networks an incentive to deliver robust and well justified business plans much earlier in the process than was the case in RPI-X. Experience from GD1 showed that this was not how networks approached the price control process in reality. We have real concern over whether fast tracking can ever operate as originally conceived given the fundamentally risk adverse nature of networks' shareholders.

20. As a minimum, we would ask Ofgem to set out clearly how fast tracking is expected to operate in the interests of consumers in ED1.

**We welcome feedback on the company stakeholder engagement processes used in RIIO-T1 and GD1, and also welcome any feedback on the consultations being initiated by the DNOs.**

21. We have concerns over the stakeholder engagement processes used in GD1 given the lack of transparency in the GDNs' business plans of our key asks. We reiterate from our GD1 response in January 2012, that only one GDN put forward a suggestion for managing the volatility and predictability of distribution charges and the lack of information on the impact of GDNs' plans on prices at the start of the price control period.

## Further Stakeholder feedback

22. We have had difficulty in producing comparative analysis in GD1 as the GDNs used redaction and inconsistent terminology and categorisation in their plans. We request that the redaction of information from stakeholders is kept to a minimum and where redaction is utilised, the rationale is explained. We urge Ofgem to produce a 'straw man' business plan for the DNOs to use and agree terminology for the main categories of spend well in advance of submission.
23. Suppliers need to know what price change would occur in April 2015 if the DNOs plans are accepted, this is a key interest to a number of stakeholders. We request the business plans explicitly state what allowed revenue percentage change they expect in April 2015 compared to current prices, and publish the DCP066 reports accordingly (with additional years). We also need the figures with and without the impact of Real Price Effects.
24. Our suggestions for improving the business plans, based on our experience in GD1, are:
- Wholesale review of the redactions and omissions, with DNOs giving explicit reasons for each and every redaction.
  - All expenditure plans are compared to the current view of the final year of DPCR5, actual data and broken down by year and network, all using the same price baseline (i.e. 2013/14 prices).
  - Publish the data or spreadsheet models referenced in the qualitative evidence.
  - Clearly explain the price movements, reconciling 2014/15 revenues to 2015/16 including benefits from Frontier Shift, increased investment over DPCR5 and the impact from financing assumptions.
  - Clearly show changes in investment year on year over the price control period.
  - Show the impact from Low Carbon Network Fund, explaining the benefits achieved and the lessons learnt.
  - Make all data available in spreadsheet format, clearly referenced to the tables in the business plans.
  - Express price movements in 'money of the day', clearly indicating the assumptions for inflation.
  - Agree and use the same terminology for capital and operating expenditure and keep the 'Other' category to a minimum. At least we would like the capital expenditure on reinforcement and new capacity, with the expenditure value and related units.
25. In summary, we believe that RIIO has the potential to deliver better value for money for consumers than the previous RPI-X approach, particularly as significant investment is required in the networks. However, given the advent of smart grids and the need to encourage / incentivise effective and reliable DSR, suppliers need to have a key role in the

process. We have real concern given the level and uncertainty in network investment required that the price control is eight or nine years as suggested by Ofgem, we believe that a five year period will bring greater benefits to consumers. Finally, we request that Ofgem sets out the expected benefits of fast tracking for consumers.

26. We hope you find the comments useful, happy to discuss further if helpful.

Yours sincerely,

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[Via email]