

Rachel Fletcher  
Acting Senior Partner, Distribution  
Ofgem  
9 Millbank  
London  
SW1P 3GE

[RHO.ED1@ofgem.gov.uk](mailto:RHO.ED1@ofgem.gov.uk)

2<sup>nd</sup> April 2012

Dear Rachel

## **Consultation on way forward on next distribution price control review**

The Renewable Energy Association is pleased to submit its comments on your consultation on how to organise the next distribution price control review. The REA has members who work on all types of renewable power and heat projects and the majority in number of our members' electricity generation projects are connected to a distribution network so how DNO's income is set and importantly what incentives they are given for the eight or nine years from 2013 is not only important for our members but will be a key factor in determining how smoothly progress to achieving the governments renewable energy and low carbon targets for 2020 and beyond is achieved.

As an increasing amount of low carbon generation as well virtually all demand connections are to distribution networks their roll will be central to the move to a low carbon electricity network and indeed the general decarbonisation of the whole economy. Our view is that it is more important at this stage to set out a timetable that allows adequate opportunity to debate the best form of distribution price control over this period than to come up with proposed the proposed methodology over the next two or three months. In particular it is more important that adequate time is allowed to work up the basic components of the price control than that the schedule is set to allow for a fast track review of some companies. We are not against the use of a fast track process as such but the possibility of its use should not cut short the important policy decision making phase at the beginning of the price control review process.

***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?***

We definitely agree that accommodating low carbon technologies in a timely and cost effective way should be a key objective of RIIO – ED1. This is much wider than just connecting low carbon generation. Towards the end of the period we would expect electric vehicle charging and heat pumps for space heating begin to make a major impact on demand connections and accommodating the increase in demand in a smart and therefore economical manner will be a major challenge for distribution network operators.

In terms of addressing this our initial thoughts are that it may be worth overlaying some detailed incentive mechanisms which can be designed in some detail “now” (actually in the next eighteen months) with an overarching incentive mechanism that can pick up any aspects that nobody has yet thought of as well as dealing with the totality of the more detailed incentive mechanisms. Something along the lines of the Environmental Discretionary Reward currently being considered for transmission may be an appropriate place to start the discussion.

***Which of the DPCR5 outputs and incentives do you consider to be fit for purpose, or require minimal amendment, for RIIO-ED1?***

We are reluctant to offer views on this at present believing that consideration of all the DPCR5 output measures and incentives and whether they should be carried forward for the next price control review is a core topic for discussion by the working groups that you are setting up.

***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.***

***We would be interested to hear stakeholders’ views on potential outputs, for example what might be included in the social obligation category, and whether it would be useful to set outputs related, for example, to the role DNOs might play in Local Authorities’ integrated energy schemes.***

We respond to these two questions in the same way as to the previous one – they are topics that need to be debated at the working groups.

***Do you think the ED1 price control period should last for eight or nine years?***

Whilst there is a lot that we do not know about what will actually transpire in the next five to ten years as regards the demands that will be placed on distribution networks, the difference between our lack of knowledge over eight or nine years is immaterial. The key is to include in the framework mechanisms for coping with the “known unknowns”.

We are not going to comment on the content or level of detail that should be in the DNOs' business plans nor on the usefulness of the stakeholder engagement process to date.

If you would like to discuss any of these comments further please let me know,

Yours sincerely

Gaynor Hartnell  
Chief Executive  
Renewable Energy Association