RenewableUK
Greencoat House, Francis Street
London SW1P 1DH, United Kingdom

Tel: +44 (0)20 7901 3000
Fax: +44 (0)20 7901 3001

Web: www.renewable-uk.com
Email: info@renewable-uk.com

Hannah Nixon
Ofgem
9 Millbank
London
SW1P 3GE

Date: 10th April 2012

By e-mail: RIIO.ED1@ofgem.gov.uk

By e-mail: zoltan.zavody@renewableuk.com

Dear Hannah,

RenewableUK consultation response REF 15/12
THE WAY FORWARD FOR THE NEXT ELECTRICITY DISTRIBUTION PRICE CONTROL REVIEW RIIO-ED1

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 660 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. The association's response aims to represent these industries, aided by the expertise and knowledge of our members.

Summary

RenewableUK agrees that ensuring that DNOs accommodate low carbon technologies in a timely and cost-effective way should be a key objective of RIIO-ED1. In order to achieve this, we believe a number of measures need to be put in place:

- **a clear vision: what is the long-term goal that DNOs are working towards?**
- **clarity in the role of DNOs: what does it mean to "play a full role"?**
- **clarity on the balance between consistency and differentiation of DNOs**
- **incorporation of opportunity cost in investment decisions, allowing DNOs to take appropriate risks**

We feel it would be premature to focus on individual incentives in advance of achieving clarity on the long-term goals and framework.

Introduction

RenewableUK represents the large majority of wind, wave, and tidal energy industries. We respond on behalf of not only our more prominent members, but also our smaller members who may not have the time or expertise to engage in the policy development process, but are busy delivering renewable projects on the ground. These members will in general be connecting to the distribution network.

On behalf of all our members, RenewableUK welcomes Ofgem's open letter on RIIO-ED1. The major changes in energy generation and usage over the coming decade present a compelling reason to review the role that DNOs play. However, there is a long-standing need to improve the interaction between DNOs and the renewable community even in advance of these changes, as evidenced by the DG Forum run by Ofgem in autumn 2011.

We hope that Ofgem can exert its influence on DNOs to take a more pro-active approach to DG now, even as the longer-term issues are considered under the RIIO-ED1 review, which does not itself come into force for another three years.

This response is structured around the RIIO-ED1 questions, as set out in Ofgem's open letter.

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?

Yes. RenewableUK agrees that ensuring that DNOs accommodate low carbon technologies in a timely and cost-effective way should be a key objective of RIIO-ED1. We believe a number of measures need to be put in place to achieve this:

First, there is a need for a vision as to the long-term goal that DNOs are working towards. – This needs to be spelled out in direct and simple terms, and linked to targets and goals enshrined in national policy, so that it is clear to all DNOs. Where there is uncertainty, for example in the deployment rate of electric vehicles or

renewable generation or microgeneration or energy efficiency, it is still possible to provide DNOs with a big picture scenario and some broad goals for them to aim for. One example of a goal is the decarbonisation of the electricity system by around 2030, as per the carbon intensity projections of the Committee on Climate Change. Without such goals, DNOs will respond to individual Ofgem process requirements or incentives or Code clauses, rather than take holistic actions consistent with the desired direction of travel such as embracing the low-carbon agenda.

Second, and in a similar vein, there must be clarity in the role of the DNOs. RIIO aims "to encourage energy network companies to play a full role in the delivery of the sustainable energy sector." It is important that DNOs understand the parameters for this full role. For instance, do they have a leadership role? A role in changing attitudes and behaviour? Or just a role in efficiently responding to customer requests? These questions have significant implications, even for relatively simple matters such as understanding the efforts to which DNOs should go to connect small and medium scale renewables.

Therefore it is important to think through what a DNO will need to do, and then determine what it will need to look like. As the link between the generation and demand sectors, the network companies have a significant ability to influence both of these. RenewableUK believes that DNOs should have some explicit responsibility for leading the way towards the achievement of long-term low-carbon goals; and also that they need to develop a distribution network *operator* capability (not just ownership), moving from a passive to an active role. Although the new responsibilities and technologies may not be implemented for some years, the institutional capability for this and other requirements need to be specified properly at the outset and put in DNO licence conditions, giving them the security to resource up to meet their obligations. This likely requires direction from DECC.

Third, there needs to be clarity on the balance between the benefits of consistency and the need for differentiation. For example, each DNO may benefit from its own, bespoke processes for connecting new generation. However, renewable developers can be severely set back by the range of DNO-specific processes and requirements, where there is often no consistency for no apparent reason. Appropriate incentives are needed for consistency and collaboration where these are warranted, with benchmarking and continuous improvement where differences exist; and major differences only allowable when the DNOs' specific circumstances justify these.

Finally, while recognising the need for tight regulation to ensure prudent investment, RenewableUK believes DNOs should be given room to take risks that are not guaranteed to pay off, and should be rewarded when those risks do pay off. Indeed, in the uncertain environment of the price control period, not making mistakes may be a sign of over-caution where opportunity costs, project delays, lost generation, lost carbon savings, and loss of momentum may themselves outweigh the cost that would have been incurred. Uncertainty should not in itself be used as a reason not to act.

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

In the light of the foregoing, RenewableUK feels it would be premature to focus on specific individual incentives at this stage. – The first step is to set an overarching framework based on achievement against long-term policy goals, and the role of DNOs within this framework. No amount of individual incentives will deliver an overall vision, and without it, there will only be development based on incrementalism and medium-to-long term risk aversion.

Output targets should look beyond 2023, given that economic asset lives stretch to 45 years. It is worth noting in this context that much of the investment under RIIO-ED1 may actually constitute preparation for the following price control period, ED2. This is the period over which consumer demand measures such as electric vehicles and ground source heat pumps are likely to proliferate on a mass scale.

Looking at DPCR5, RenewableUK would clearly support incentives such as the distributed generation incentive framework, which facilitate DG connections and encourage DNOs to invest efficiently and economically. More work will be required, however, to define what is meant by being "generally pro-active and positive in responding to connection requests." And, referring back to the response to the previous question, what about just being "generally pro-active and positive"?

It is important to understand the impact of some of these incentives in operation. For instance, the distributed generation incentive framework provides a £/kW incentive rate and an 80% pass-through of reinforcement costs incurred. There is a question however as to the extent to which this incentive stacks up on the ground, whether it is worth it to the business to invest in appropriate change management, and ultimately

whether the incentive is internalised within DNO processes on the ground. Furthermore, some individual incentives may have perverse outcomes. Potential examples include the losses incentive leading to the introduction of onerous requirements for reactive power; and the three-month requirement leading to an undue focus on this timescale at the expense of other considerations.

As described under the previous question, an incentive that appropriately balances the benefits of consistency with the need for differentiation should be explored.

RenewableUK supports incentives for innovation. However, "successful delivery reward" as offered under LCNF should be contingent not only on completion of projects, but also on a clear impact assessment and wider roll-out plan. We appreciate this may already be under consideration under new innovation arrangements.

RenewableUK also supports incentives around customer satisfaction and customer service. It is in this area, particularly around commercial issues and contract management, where RenewableUK members report dramatic disparities in standards of service between DNOs. However, it is important to ensure that the monitoring in this area captures the experiences not only of stakeholders who managed to secure contracts, but also of those who did not. Furthermore, the monitoring should capture all the intermediaries – consultants, installers, financiers – who may not themselves sign contracts, but are a crucial part of the process of getting connected. The detail of how this is done needs further thought.

How can we improve the cost assessment, particularly with respect to the expenditures that will be proposed in RIIO-ED1?

RenewableUK has not investigated the detail of DNO costs. We would make two observations:

First, there will be a learning curve for all, including the DNOs. DNOs are not "mini-National Grids" as some might think. They have never possessed the system operation capability or expertise of NGET. They have never actively managed their networks or developed modelling, planning, and system balancing capability. They have no relationship with their customers in terms of understanding, forecasting, and modelling their behaviour. Therefore DNOs will need to recruit and train new staff in

order to provide the levels of service, innovation, and management that are needed for successful delivery of the business plan. This will need to be resourced.

Second, as mentioned under the first question, DNOs should be allowed to take risks. Cost assessments should take into account the variety of costs incurred by not investing early,i.e: opportunity cost, cost of "jumping through regulatory hoops," project delays, lost generation, lost carbon savings, and loss of momentum in moving towards national policy goals may themselves outweigh the cost that would have been incurred by some anticipatory investment in grid infrastructure, or undergrounding of cables, etc.

We note that LCNF projects such as the Thames Valley Vision should help with anticipation of the areas where low carbon technologies might connect. Results from this should be utilised as early as possible.

What might be included in the social obligation category, and would it be useful to set outputs related, for example, to the role DNOs might play in Local Authorities' integrated energy schemes?

It is important for DNOs both to protect the vulnerable and less able, and to support those who are wishing to take action on the low-carbon agenda. There are several options regarding who pays for how much of the infrastructure, and the benefits, associated with additional low-carbon investment. There will be issues within this balance are relevant for the wider charging methodology. Accordingly, Ofgem would need to make clear its intentions, including roles and accountability, for the setting of future charging methodology.

RenewableUK agrees that DNOs should play a role in Local Authorities' integrated energy schemes. – The availability of networks and network development plans are a fundamental component of any local energy strategy.

Should the ED1 price control period last for eight or nine years?

RenewableUK has no strong view on the time period, but would stress that Ofgem needs to ensure that appropriate resources are in place to undertake comprehensive progress reviews of fourteen DNO business plans.

RenewableUK agrees with the idea of a mid-term review, given the rapid and significant changes likely to occur.

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.

RenewableUK welcomes Ofgem's inclusive approach to the development of RIIO-ED1, and the timescales allowed for this. As evidenced by our arguments above, we would support the use of some of this time for high-level discussion and agreement on overall frameworks and functions, which can later on be followed by iterative translation of the high level into practical incentives. The developments under ED1 are more complex than those under RIIO-T1, with likely changes in roles and responsibilities, so this thorough, considered, and transparent translation of principles into practice is even more important.

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.

RenewableUK welcomes the requirement for extensive stakeholder engagement and consultation by DNOs. We would advise that, in order to engage stakeholders who are at varying levels of understanding, it is important to set the scene and context, and to be clear on what is and is not up for review. This applies even more than under RIIO-T1, where many of the stakeholders are larger, more informed companies.

Ofgem and/or DECC may consider offering an introductory presentation at each of the DNO workshops. While this of course represents a resource commitment, it would make clear who holds responsibility for national policy framework, who for regulatory policy, who for DNO activities, and what it is that the DNO stakeholder events are attempting to explore. It is important for these events to be appropriately framed if they are to be effective, efficient, and credible.

For these events to be truly integrated, it is necessary also to consult the energy suppliers, and understand their priorities and programmes with their customers in the DNO area. Ultimately it is the suppliers that have the relationship with the customer, not only in terms of data, but also in terms of being the route for mobilising them to

play an active role and maximise the benefits of "smartness." Involving suppliers in an open forum in such a strategic way is not an easy task, when they are competing against each other, but there are examples from which lessons can be drawn, for example local energy efficiency programmes to combat fuel poverty.

In terms of process, there are limitations to public stakeholder events, in terms both of attendance and of the level of openness that can be exercised. RenewableUK is seeking closer collaboration with the Energy Networks Association, to find ways of supporting the engagement process with smaller elements of the renewable industry, and ensuring that they too manage to have their views heard – though again, DNOs need clear guidance as to why small and medium scale renewables are important for the delivery of a longer-term vision. Bespoke DNO events for specific sectors, in addition to workshops open to all, may also be helpful.

Finally, RenewableUK commends Ofgem's DG Fora that were run in the autumn of 2011. We were disappointed at the lack of direct follow-up, which has arguably allowed DNOs to carry on as before. We strongly support the re-running of the DG fora, to gauge what progress has been made over the course of the intervening year. RenewableUK would be happy to participate pro-actively at these events.

We invite any parties with an interest in being involved to contact us and explain what they believe they could contribute.

RenewableUK represents over 660 corporate members from the renewables industry. Many are small and medium, with little direct representation and, Ofgem and DNO initiatives notwithstanding, may find it difficult to make themselves heard.

RenewableUK has experience with supporting the translation of on-the-ground issues into policy and regulation, and vice-versa. We look forward to working with the Ofgem team, acting as a two-way conduit with the renewable industry.

Yours sincerely,

Zoltan Zavody
Grid Policy Team