

Energy UK response to Ofgem's open letter on RIIO-ED1: Electricity Distribution Networks Operators' (DNOs) business plans

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Introduction

Energy UK is the trade association for the energy industry. Energy UK has over 80 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes.

Energy UK welcomes the opportunity to respond to Ofgem's open letter on RIIO-ED1: Electricity Distribution Networks Operators' (DNOs) business plans – publication, views and next steps.

Executive summary

We are pleased to note Ofgem's focus on how networks will deliver in the interests of both existing and future consumers and how they will meet the challenges associated with the transition to a low carbon energy sector. Electricity Distribution Network companies, along with other sections of the industry, are experiencing a significant level of uncertainty and change, including amongst other things the impact of micro-generation and the electrification of heat and transport. To a lesser extent Electricity Market Reform (EMR) and Retail Market review (RMR) will also have an impact. Therefore, we recognise that submitting an eight year business plan is challenging. However, to ensure that customers receive the best service and price possible, it is important that this process is robust and transparent, as network costs contribute as a rapidly increasing element of consumers' bills.

Whilst we do not have the resources or capacity to review each individual business plan we would encourage Ofgem to consider the following comments in its review. We would be keen to work with Ofgem, and DNOs, over the coming months to ensure that the next eight years provide customers with certainty of costs.

- It is critical that DNOs are incentivised to be cost effective in all aspects of operation. Much work has been invested in innovation and opportunities through the Low Carbon Network Fund (LCNF) it is important that this results in an efficient transition from trial to business as usual. Ofgem is in an ideal position to encourage this to happen.
- DNOs should be incentivised to invest and innovate so that the end user receives an efficient and effective standard of service.
- With the introduction of smart metering into households and micro businesses over the next six years, the industry will have an opportunity to influence how customers purchase their energy, by the use of time of use tariffs and demand side response. For example, we are aware that Ofgem has several relevant work streams, such as RMR and a consultation on

demand side response, and that the Department for Energy and Climate Change (DECC) has also looked into. It is important that there is a clear framework for this reform, to provide much needed confidence to investors and end consumers.

- The percentage share of distribution costs in the typical bill is increasing. However there is limited transparency surrounding the reasons for this. Suppliers have a limited ability to absorb or mitigate such increases. Ofgem must consider this when reviewing the business plans.
- There should be a link between DNO investment in the grid infrastructure and wider energy costs. If network investment leads to a reduction in overall energy costs then this should be an acceptable strategy included in business plans.
- Energy suppliers balance a number of different input costs for their customers, one of which is regional network charges which are one of the biggest 'unhedgeable risks' faced by energy suppliers and their end consumers. Suppliers often try to offer long term stable prices for their consumers, either within an ever-green tariff or via a fixed tariff. Therefore energy suppliers should have as much notice as possible for any changes to prices by DNOs so that this information can factored into their pricing methodologies. The proposed change to the Distribution Connection and Use of System Agreement (DCUSA) DCP178 would change the notice period for changes in use of system tariffs from 40 days (currently used) to 15 months. We recognise that such changes will need to be accompanied by greater flexibility around the limits of DNOs' over/under recovery price control revenue and associated interest calculations. Ofgem's support to deliver this is essential to overcome any barriers to implementation.
- There are areas where suppliers and network companies could collaborate to the benefit of customers. For example, where legally possible, sharing data within the Priority Service Register (PSR) to ensure that vulnerable customers receive the benefits and support available to them. **We are keen to explore any opportunities in RIIO-ED1 to work alongside Ofgem and DNO companies to facilitate this.**
- Energy customers have grown used to a high level of reliability with power cuts a relatively rare occurrence. This level of performance should be incentivised within the RIIO-ED1. Ofgem needs to balance the investment requirements for network companies to connect distributed generation, including community energy projects, and the level of reliability and price that end customers are prepared to pay.
- The "fast tracking" process as outlined in Appendix 4 of Ofgem's document "Strategy decision for the RIIO-ED1 electricity distribution price control" provides the criteria that DNOs' business plans will be graded against. We highlight the need for business plans to be reviewed thoroughly ensuring that the following criteria are taken into consideration:
 - Business plans are assessed independently against all of Ofgem's pre-set criteria.
 - The format of each DNOs business plan is different; this makes drawing comparisons difficult, therefore Ofgem should exercise caution when comparing business plans against each other.
 - When benchmarking DNOs business plans Ofgem should ensure these are considered as being in the upper-quartile through quantitative analysis ensuring results are objective.
- We note that the RIIO-ED1 framework contains the new Incentive for Connections Engagement (ICE). This is aimed at encouraging DNOs to provide a better service for customers connecting to the electricity distribution network. Ofgem needs to ensure that customer satisfaction is measured accurately taking into consideration different customer groups to ensure DNOs are meeting the requirements of ICE.
- Ofgem should ensure that additional rewards for incentive schemes (such as the Interruptions Incentive Scheme) are set to ensure an appropriate balance of risk and reward for DNOs or value for money from consumers.

Energy UK is keen to continue working with Ofgem and DNOs to facilitate dialog between our members as we move forward into RIIO-ED1 price control.

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