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Dear Anna,

**RenewableUK consultation response REF 111/13**

**RIIO-ED1: Electricity Distribution Networks Operators' (DNOs) Business Plans**

**Summary**

RenewableUK and Scottish Renewables welcome Ofgem's consultation on the DNOs' business plans under RIIO-ED1. The plans that the DNOs put in place are crucial to the long-term transition to a low-carbon economy.

- **The plans are written as regulatory submissions to Ofgem, and according to the categories set by Ofgem. This makes it difficult for any particular stakeholder group easily to glean the relevance to their sector.**
- **Limited feedback from members on DNO stakeholder engagement sessions is in general negative. We have had more positive responses about the small number of bespoke and consultative sessions organised specifically for/by the distributed generation community.**
- **Use of the low DECC scenarios for uptake of low-carbon technologies seems unambitious and self-fulfilling. We question the contingency plans and processes that DNOs have in place in the event of, as well as for facilitating, higher uptake as part of the transition to a low-carbon economy.**
- **We see little evidence of pro-active, innovative ideas to facilitate or reasonably justify the strategic reinforcement of grid. Instead, the DNOs seem to continue to be reactive to demand.**
- **An increasing area of concern to members is the interaction between transmission and distribution capacity. We see very limited consideration of transmission grid in DNO plans.**

- **We welcome the improvements in service proposed, often as a development of the DG/DNO forum working group. In some cases timescales are still needed for delivery of specific service improvements.**

## **Introduction**

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. Scottish Renewables is the representative body for the renewable energy industry in Scotland, with over 320 member organisations. The associations' response aims to represent these industries, aided by the expertise and knowledge of our members.

The associations respond on behalf of not only their more prominent members, but also smaller members who may not have the time or expertise to engage in the policy development process, busy as they are delivering renewable projects on the ground. These members will in general be connecting to the distribution network.

## **Structure and Readability**

The plans are written as regulatory submissions to Ofgem, and according to the categories set by Ofgem. This makes it difficult for any particular stakeholder group easily to glean the relevance to their sector. Plans without hyperlinks (or where hyperlinks are embedded within the pdf and inaccessible) are unhelpful for finding the relevant section. Plans that are split into individual documents prevent a comprehensive word-search. Plans where appendices do not follow an overall page numbering are difficult to navigate.

We have received very limited input into this consultation from our membership of renewable developers and the associated supply chain. This speaks for itself. When considering projects, renewable developers are mostly interested in Long-Term Development Statements (LTDS), which map out grid capacity in a DNO area, set out the DNO's specific plans for grid development, and identify potential constraints and how these may be dealt with. Renewable developers are one of a small number of customer categories that DNOs deal with.

We note that the DNO websites, with headings such as “our commitment to you,” etc. tend to focus on the householder. While we understand the need for a well-presented, public facing interface, the lack of clear links to navigate to the business customer sections (if any) do not facilitate effective engagement with this stakeholder segment; including eliciting input from non-DNO experts. The WPD website is one of the more easily navigable for the distributed generation community wishing to connect, but the same navigability is missing from the WPD business plan.

**→ Plans and websites should contain clear and easily navigable pointers to the sections of relevance to the business customer.**

As with Ofgem’s consultation on the RIIO-ED1 price control itself, we question the accessibility and effectiveness of this kind of regulator-focused consultation. This is a message we have regularly conveyed to Ofgem over the course of the development of the ED1 price control.

**→ We encourage the production of customer focused summaries of the plans and their relevance, as part of the next iteration of all plans.**

### **Stakeholder Engagement**

Limited feedback on stakeholder engagement sessions is in general negative. Specific audiences such as the distributed generation community need bespoke and consultative sessions rather than lumping everyone into the same “stakeholder engagement” event. It would seem very difficult for a DNO to engage in a thorough, systematic way to find ways through specific issues, if the discussion needs to cater for all.

An example of this is where householder representatives might be polled about the grid charges on their bill. Needless to say, we all want our charges to go down. However, of itself this does not represent an informed, strategic, innovative and output focused review. A further example is where stakeholders are asked to “vote” on assumed deployment scenarios. Surely the views of experts in market transformation should carry additional weight. We are concerned at the lack of due weighting given to considered views, for example in relation to strategic investment.

**→ The claimed results of stakeholder events should be critically assessed against the relevance of participants and the issues discussed.**

In contrast to such events, Scottish Renewables' Distributed Generators Working Group has arranged bespoke discussions with SHEPD and SPEN. The engagement here is issues based and strategic, and highly successful, entailing dialogue rather than presentations. Although there has been no opportunity to discuss the business plans over the course of Ofgem's consultation period, a further discussion is planned and Scottish Renewables would be happy to provide further feedback from this.

Our observations regarding stakeholder engagement do not augur well for DNOs' use of customer satisfaction measures, including the development of the Incentive for Connections Engagement (ICE). WPD's scoring as number 1 for customer service; yet low on connections is an illustration of the potential mismatch.

**→ We urge Ofgem to guide DNOs towards a disaggregated customer satisfaction measure that puts due weighting and detail on particular customer groups such as distributed generation.**

We would commend Ofgem's Price Control Review Forum (PCRF) meeting of 30<sup>th</sup> July 2013. While inevitably not comprehensive, it allocated time to particular issues and input by relevant groupings; and helped make inroads into understanding the wider picture. The distributed generation community also welcomed the 6<sup>th</sup> June engagement event with Ofgem, which yielded valuable outputs, though it seems to have been too late for influencing either RIIO-ED1 decisions or the drafting of DNO business plans.

**→ We would encourage a further PCRF style event as part of the next iteration of the plans.**

## **Expenditure**

We note a reduction in capital investment compared with DCPR5 in a number of DNO areas, notably: ENWL, WPD West Midlands, SSE South, and NPG north-east. We have not had the chance to analyse the costs in detail, and of course the reduction may be associated with cost efficiencies. However, we would comment

that this may warrant particular attention in the context of the need for widespread renewal of distribution network infrastructure.

We note also that the network investment costs significantly exceed operating costs for UKPN and SP Manweb. Again we have not had the chance to analyse the costs in detail, and we do not make judgement on it, but we wonder in what ways these particular plans differ to the others.

## **Uncertainty**

Use of the low DECC scenarios for uptake of low-carbon technologies seems unambitious and self-fulfilling. DECC itself speaks about 20GW of photovoltaics for example, which broadly corresponds to 17% or so of households, rather than 3% as assumed in some business plans. Although the DECC scenarios are for heat pumps, photovoltaics, and electric vehicles, we envisage that they are symbolic of DNOs' wider thinking on the deployment of renewable technologies, including wind.<sup>1</sup> There is an inevitable question as to whether a DNO feels its business plan is more likely to be fast-tracked if written according to a low-expenditure scenario.

**→ We would like the DNOs to demonstrate their sensitivity analysis for the scenarios they have adopted, including how they balance opportunity costs against the costs of premature investment.**

Clearly if a DNO's investment, recruitment, processes, and business targets are all geared towards low uptake of technologies, there will be additional inertia to overcome in the event of the materialisation of greater demand. The business plans do not seem explicitly to address how they will embrace and facilitate the transformation to a low-carbon economy. The statement that, in the event of 20% additional connections expenditure, a reopener will be initiated, would warrant further detail in terms of a) how a positive approach will be taken to connections over the course of overspend up to 20%; and b) how a seamless and strategic service will continue to be provided over the course of a reopener. The NPG plan goes some way towards setting out the contingency measures in place, though it could go further regarding the internal incentives and triggers as expenditure thresholds are reached.

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<sup>1</sup> Only the UKPN plan seems to set out specific assumptions for wind deployment.

Similar questions apply to the £25M threshold for high-value projects.

**→ We would like the DNOs to set out how they will continue pro-actively and strategically to engage with low-carbon connections as expenditure reaches and exceeds reopener thresholds.**

We also note the disparity between DNOs' assumptions and National Grid's own Gone Green scenario of July 2013. This would seem to suggest a misalignment and implicit discrimination between the regime for generators connecting under the transmission regime as compared to those connecting under the distribution regime.

We see nothing on the linkage between DNO investment in grid infrastructure and wider energy costs. Take the following approach: Distribution charges account for some 16% of the household bill. Therefore, and oversimplifying, a 1% increase in DNO investment may lead to a 0.16% increase in the household bill. There is an argument that this cost would be outweighed, in the overall bill, by:

- swifter connections, leading to lower project and generation costs
- additional market entrants, without the hurdle of grid, leading further competition
- reduced risk leading to reduced cost of capital for investment in generation
- protection from the volatility of fossil fuel prices (in the case of renewables)

Although there is a need for caution against over-generalising, we are disappointed to see no evidence of wider thinking and analysis in this regard. In most cases, the economic analysis seems to cover the eight-year price control rather than the lifetime of the assets. The commitment of DNOs, and Ofgem, to affordable energy for future generations should stretch beyond an assumed life-expectancy of eight years.

**→ DNOs should undertake a wider economic analysis of the impact of their investment on the full bill, not just the network element of it over the price control period.**

This analysis needs to be robust, and Ofgem may wish to provide some supporting guidance and ensure consistency in methodology among DNOs.

## **Innovation and Problem Solving**

The distributed generation community looks for two forms of innovation: innovation in approach and technical innovation. Evolving approaches on information provision and customer service are beginning to make a difference to customers. Smart grid innovation, like active network management, is of interest to many developers, and we look forward to this becoming business as usual. However, we are concerned that smart grids are seen as a panacea for delaying investment in the face of uncertainty. Despite uncertainty, there are times when strategic grid investment is the sensible and most cost-efficient solution.

We are therefore disappointed to see little evidence of pro-active, innovative ideas to facilitate the strategic reinforcement of grid. For example, smaller individual generators are not able to trigger reinforcement alone, and may be given prohibitively expensive quotes in constrained areas of the network. Yet a DNO could build on broad interest in a particular region, grouping generators to help with the needs case. Scottish Renewables is working on initiating a trial in this area, to bring together developers suggested by a specific DNO. Wider interest and buy-in to this kind of idea from all DNOs would be welcome. Likewise, pre-approval works could allow low-cost but time consuming preparation to take place in good time. Such innovation applies particularly when uncertainty in the clustering of low-carbon technologies is used a reason to hold back on investment; the DNOs should not just be a passive observer to what happens around it, as suggested by WPD, but an active facilitator of change.

**→ We would like to see more innovative thinking in the plans on how to develop the case for sensible grid investment.**

In a similar vein, in transmission, it is possible for the owner to carry out some relatively low cost advance work (such as obtaining planning permission for line routes) when they can see a likely need but before they have “proven” contracted capacity. This is very low cost, so a low risk for consumers. However, it means new lines can be delivered much faster once the need is proven. It would be helpful to see this kind of approach in DNOs’ business plans.

**→ We would like to see a strategy within the plans for pre-approval works, together with other ideas for delivering timely and justifiable grid reinforcements.**

Looking at DNOs' wider role in the transformation to a low-carbon economy, there are a number of practical, regulatory, and policy issues needing resolution that are on the interface between transmission and distribution. These include:

- coordination of distribution and transmission outage plans to minimise disruption
- avoiding the pass-through of prohibitive liabilities (CMP 192)
- removal of small generator benefits / discounts in relation to transmission charging
- streamlining the Statement of Works process

We would expect to see all the DNO business plans set out their approach both to horizon scanning for future issues, and to resolving more immediate issues. We believe Ofgem should find a way of incentivising such positive thinking, including more proactivity from DNOs in their interaction with TOs and also the SO. Furthermore, on business plan expenditure, DNOs should be allowed to recover residual exposure through the tariff base. We commend SSE for continuing with a positive policy on this but we do not believe this is consolidated for the eight-year price control. No other DNO seems to mention the issue at all.

**→ The plans should set out how the DNO plans to play an active role in smoothing the landscape for distributed generation and other customers.**

Although we note and welcome the reference to innovation projects, including LCNF projects, we have not received sufficient comment from our members to be able to comment on these at this stage. We do however acknowledge and welcome the leadership demonstrated by ENWL on both the Smart Grids Forum and on the DG/DNO Forum jointly convened with associations representing the distributed generation community.

### **Customer Service**

We welcome the improvements in service proposed, often as a development of the DG/DNO forum working group. Smaller developers in particular have welcomed the introduction of account managers (or otherwise named points of contact) for



connections. Timescales are on occasion still needed for delivery of specific service improvements.<sup>2</sup>

**→ Where commitments to customer service and associated tools are provided, it would be helpful to have timescales for when these will be honoured.**

## Summary

In summary, we see the business plans as a first step. In terms of Ofgem sign-off, or stakeholder approval, of the final business plans, we believe there is some way to go. More focused, structured engagement is needed and this is possibly best done via an Ofgem coordinated forum or fora, building on the model of the last PCRf.

While we are disappointed in some ways, we also acknowledge that this is the first stage of the RIIO-ED1 process. We look forward to seeing improvement in both process and content as the plans are developed.

Yours sincerely,

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<sup>2</sup> For instance, Northern Power Grid's excellent proposal to publish a guide for connecting small-scale generation, and regular information about the capacity available for connections in specific areas. – When?