Liverpool City Council / Core Cities

Response to ‘RIIO-ED1: draft determinations for the slow-track electricity distribution companies ‘

https://www.ofgem.gov.uk/ofgem-publications/89076/riioed1draftdeterminationoverview30072014.pdf

Context

The Ofgem consultation document explains the proposed settlements (draft determinations) for the next network price control (RIIO-ED1) which will come into effect in April 2015 and run for eight years until 2023.

The proposed settlements apply to five of the six electricity distribution companies that run Britain’s local electricity network, which transports energy into homes and businesses.

In February 2014 Ofgem finalised (‘settled’) the price control of one company early, Western Power Distribution, after judging its business plan for the eight year period showed sufficient value for consumers. The potential for early settlement is known as ‘fast-tracking’. The remaining slow-track companies submitted revised business plans in March. The draft determinations in the consultation document are based on Ofgem analysis of these revised plans.

The following comments are a draft of a consultation response from Liverpool City Council, sent on behalf of all Core Cities.

A) General Comment

Large parts of the document are financially or technically too specific for us to comment on so this is not intended to be a comprehensive response to all aspects.

The opacity of the processes and regulation is a major concern going forward as the pool of informed participants that could potentially offer useful opinion or participate is becoming increasingly narrowed by the complexities of the process.

The current processes have created a regulated monopoly that is risk averse and not always supportive of local economic regeneration objectives.

B) Page 4 paragraph 3 & page 5 paragraph 3

'The remaining DNOs have revised their plans. They have provided a strong package of outputs, with more justification at a lower cost (by more than £700m) than their previous plans.'

Overall, following RIIO weighting (interpolation) of company and Ofgem forecasts, we have reduced companies' allowed total expenditure by £1.4bn over RIIO-ED1

One obvious concern for Core Cities is that the revised plans are either £700m and or £ 1.4 bn less than the previous submission total. It is difficult to ascertain whether DNOs were perceived to be asking too much to start with, are whether they are unable to provide the required justification for spend or whether they are unwilling, for whatever reason, to make the effort to justify investment.

Consultation comment :

Whilst individual customers may have lower bills in the short term there may be a longer term impact across necessary investment in the broader network. We recommend that all anticipatory investment should be developed in detail and in association with the most appropriate local authority.

C)   Page 5 paragraph 2

'In addition we don't believe that the DNOs have sufficiently considered the potential savings they can make to the cost of running their networks by adopting smart grid solutions. It is important that consumers receive adequate returns on their investment in innovation trials and the roll-out of smart meters. Evidence suggests that the DNOs can save around £400m more than they have forecast. Overall, following RIIO weighting (interpolation) of company and Ofgem forecasts'

Ofgem mention smart grids as a means of achieving savings.   We do not perceive that the DNOs are pushing these in any meaningful way.

Consultation Comment :

We recommend that there needs to be more effective regulatory/ incentive processes embedded if smart grid technologies are to be realistically trialed across any significant area

D)   Pages 29-30 para 4.28. (See also paras 4.35-4.37 page 31.)

'The Smart Grid Forum (SGF), co-chaired by Ofgem and DECC. It has worked to understand what drives the value of smarter solutions and address barriers to adopting them. The Low Carbon Networks Fund (LCNF, part of DPCR5) is funding innovation trials to assess the potential operation and benefits of smart technologies (including storage) and demand-side response……………   4.29. By 2016 consumers will have contributed up to £450m in LCNF and Network Innovation funding. In their project justifications DNOs estimated potential savings from the roll-out of their LCNF projects (if all were successful) of around £2bn over the RIIO-ED1 period.) '

We note that the Smart grid Forum is primarily composed of energy companies and associated GO's and NGO's and that arguments for the consumer benefits of Smart Grid are not yet clearly proven.

Consultation response:

We recommend that for specific tasks the membership of the Smart Grid Forum is extended to end user clients that can better reflect the consumer view point.

E)   Page 30 Paragraph 4.32

'In this context, we don't consider that the £405m savings from the use of smart grid and smart meter data in the DNOs' business plans is sufficient. We don't believe that any DNO has taken full account of the potential benefits. The evidence indicates that more savings are possible across a range of cost areas. We discuss this below, in relation to the use of smart metering data; avoided/delayed increases in network capacity; and other smart grid benefits. Our figures below are based on industry-

wide analysis and reflect potential savings across all 14 DNOs. Having calculated the full industry potential, we then calculated the proportion to be applied to the slow-track DNOs.'

Consultation Response :

Rather than just reduce DNO investment Ofgem needs to work with the DNOs to enable these savings to be made and ensure direct feedback to Government policy makers to clarify the driving policy positions in this area . There is the potential for customers to be hit twice – failure to benefit from any benefits of smart meters and also a network with reduced investment.

F) Page 30 Para 4.38

'Combining the analysis above, in coming to our view of efficient costs, we propose to apply an average reduction of 2.2 per cent of totex27 to reflect smart grid savings. This is on top of the smart grids savings the DNOs have already included in their plans. It is equivalent to a totex reduction of nearly £400m.28 When we have applied these savings to the individual DNOs we have taken account of the savings they have already included. There may be trade-offs between the different areas of savings considered above. By combining them into a single 'pot' we are allowing DNOs to determine how they achieve these savings. '

Consultation Comment :

We do not believe that Ofgem should allow each DNO to combine savings into a single pot rather than addressing from the specific areas they identify. It is unclear where the incentive to invest in smart grids would come from. Pooling pots could have unintended consequences that could have long term detrimental impacts. This may be partly offset by the incentives schemes but the balance of regulation , fines and incentives is not considered to be working sufficiently tightly to drive change.

G) Page 33 Para 4.46

The following paragraph is a significant departure from normal practice as perceived by DNO's outside the South East. It appears to allow for significant anticipatory investment within the existing regulatory rules.

'In its business plan, UKPN proposes £100m of strategic investment projects in London. We think these projects are justified. Strategic investment is investment made in network assets in anticipation that customers will subsequently request to make use of them. There is a difficult question of who should bear the risk (and cost) of the assets if the connecting customers do not emerge. We stated in our strategy decision that we were open to DNOs submitting a case for strategic investment projects in their business plans if they appropriately shared the risk of stranded assets between themselves, connecting customers and all other customers (DUoS customers). We stated that if a DNO could demonstrate benefits to DUoS customers of a strategic approach, then we would consider allowing DUoS customers to fund up to the level they would have done under an incremental approach. In practice, we said we would expect DNOs to pass some of the cost benefits on to DUoS customers in recognition of the increased risk they are taking. UKPN has demonstrated that the strategic

investment projects it proposes are significantly lower cost and less disruptive for all its London customers than incremental approaches. '

This raises 2 key issues for Ofgem:

- The current regulatory system has created DNO's that are risk averse responding only to their perceived regulatory rules as set out by OFGEM. This current system, as evidenced in the paragraph above would appear to be incentivising those with least risk i.e. UKPN where the risk is minimal as it is minimised by both the certainty of investment within London and the by the certainty of increased land and asset values and future development.
- It is imperative that Ofgem is able to clearly set out their proposals for an equitable national system that supports the Central Government aim of rebalancing the economy across the country and is responsive to local need not to areas of least risk. Ofgem must not be seen to be incentivising a self - perpetuating cycle of the over investment of public funds towards infrastructure in the South East.

If anticipatory investment is allowable within the current RIOO-ED1and the rules are are clear and fair for all DNO's, the fact that that others haven't come forward with similar needs could either be an example of DNO's poor attitude and lack of incentive for forward planning, holding back economic investment in the cities they serve, or it could be that the criteria have an inbuilt bias towards the south east

There has been some useful recent discussion between Ofgem , GLA, DECC and Core Cities to consider future anticipatory investment models where costs do not fall onto existing customers and where there is an equable assessment of need across the country. To date examples of on the ground issues have been provided by Core Cities and by the GLA but to move forward this work now requires strong leadership and drive directly from OFGEM to create a equable and effective regulatory environment that supports long term local economic development.

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