

Greater Lincolnshire LEP Limited

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Dear Sir or Madam,

**OFGEM CONSULTATION REGARDING THE FUTURE GAS AND ELECTRICITY REGULATORY PRICE CONTROLS**

Thank you for your invitation to provide feedback to the above live consultation. Greater Lincolnshire Local Enterprise Partnership has recently engaged in a study to look at the future capacity of utility infrastructure in our area. We aim to articulate the anticipated strategic growth and assess the ability of the strategic utility infrastructure (Electricity, Gas and Water) to meet the demand of this growth, and any growth over the next 20 years. This study and consultation with the business community will be completed in October 2017, so it is still too premature for inclusion in our response, at the present time.

However having stated this, we thought it would be useful to bring to your attention, our issues and barriers by giving responses to those questions that are relevant with the consultation.

Whilst we agree that any new agreement will need to ensure that regulated network companies deliver the value of money services that consumers want and need, there are also some more immediate needs that should not be overlooked, from an economic perspective, namely.

* **The current network capacity (primarily electricity, but waste is also an issue)**
* **The great need for improved long term forecasting and planning, as well as inter-network collaboration**
* **The statutory requirement for utility companies to consult on local plan proposals**

We would be looking at any improvements to be serviced through RIIO-2 to ensure the timely provision of capacity should, as a vital objective of the regulatory review, as it is critical to regional growth.

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The future proofing of the capacity of utilities in Greater Lincolnshire is greatly needed. Many partners locally are increasingly aware that development activity within Greater Lincolnshire area is potentially being hampered, because of constraints on the supply of utilities (electricity, water (supply and drainage), and gas infrastructure).Indeed, many partners are stating that investments can stall due to the limited availability of utilities and the relative cost of upgrading them, so there is a need for a strong dialogue between the utility companies and others, particularly at a local level.

The Strategic Economic Plan for Greater Lincolnshire further indicates that, in order to ensure we can deliver a reliable and sustainable utilities infrastructure to support growth, we will seek to take a stronger role in dialogue with utility providers, so that the case for investment in Greater Lincolnshire’s utilities is better promoted and understood.

A long-term commitment to infrastructure investment is critical in efforts to accelerate employment and housing, and productivity growth across Greater Lincolnshire. Providing a reliable infrastructure will allow Greater Lincolnshire to achieve its ambitions and potential.

In terms of the context that shapes this consultation, the following points outline issues that are contributing to the wider problems, namely:

* Utility costs can now outstrip other infrastructure costs combined, on certain sites, which means that developments can become less viable and stall.
* There seems to be a wide assumption that access to the energy network will be unfettered and available at all times, where we are becoming more aware that there are increasing constraints to access points, and the connection network that links them.
* The utility companies are perceived to be surrounded by a complex set of systems and processes, which is further complicated by each of the number of individual utility types, and the number of companies involved with this – both Distribution Network Operators (DNOs) and Independent DNOs.
* Engagement with the utility companies is based on a consent system that does not deal well with more speculative approaches. This means that planning, growth predictions and initial approaches around the concept of developments are less favoured and supported, because of a lack of delivery against these predictions.
* Commercial developments are more of an issue than housing, due to the varying requirements, ie, electrical loadings and unpredictably of when demand is required.
* There seems to be a disconnection between the local plans that are developed by local authorities showing growth and development, timings between these and the investment plans time periods for each individual utility company and OFGEM/OFWAT, and whether due notice is taken of the implications of local plans – due to their perceived "speculative" nature in the past.
* The regulators OFGEM/OFWAT have in place an investment plan/fixed investment periods, in which assumptions have to be made over a number of future years, with no flexibilities within the funded model to change tack. This does mean that any flexibility expected of the DNO within any investment plan period may not be able to be met, due to timescales, and value for money considerations.
* The consent system is perceived to operate on a "first past the post system", which can make developers liable for all the reinforcement costs for a certain area, without any equitable apportionment, where there will be a wider benefit.

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**How we are helping the Private Sector? – We *are looking to create a more conducive environment around utilities***

Business leaders in our area have told us that their business will continue to grow if they have confidence that there will be improved infrastructure and security – at the right time and cost. The size of our LEP area, and the subsequent remoteness of some sites that are suitable for development, can mean that the current provision of roads, water, sewerage, energy services and telecommunications may be insufficient to accommodate the level of growth required (***See feedback from the Utility Summit in Appendix 1***).

In order to ensure we can deliver a reliable and sustainable utilities infrastructure to support growth, it is proposed that the LEP will seek to take a stronger role in dialogue with utility providers and Government, so that the case for investment in Greater Lincolnshire’s utilities is better promoted and understood.

This can be split down into three areas of delivery, and is outlined in the diagram below:



The focus of specific activity in these above three areas, will be around seven emerging themes:

* **Building visibility to stakeholders of the importance of utility infrastructure provision**- findings so far are indicating that access to utilities like water, gas and electricity is one of the main issues facing businesses in Greater Lincolnshire, and in some cases development and investment opportunities have been lost because of the poor provision and cost of utilities in some areas. We will continue our drive to raise awareness of utility infrastructure in Greater Lincolnshire even further, encouraging more businesses to work with us and partners and contribute to Greater Lincolnshire's economic growth.
* **'Vitalising' Energy** **Supply & Systems** – Ongoing activity will target the development of solutions that can help deliver affordable, sustainable options, and secure energy for Greater Lincolnshire. This will include supporting the development of partnerships and enabling technologies that can provide flexibility and resilience to the future energy system of electricity, water and gas.
* **Simplifying the utility infrastructure offer** - having completed work on the study so far, we will continue to make it easier for businesses to engage and work with us and the utility infrastructure sector, to understand the offer and access funding and support through collaborations and partnerships where appropriate.  
    
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* **'Energising' our sector and business groups** - communication is essential, to build sector links across government and research, to listen to business and understand their needs. This will also highlight future opportunities and technological directions in each area, and to promote the funding opportunities we offer businesses to help them grow.
* **'Illuminating' and simplifying the data information flow** – we are working with the utility companies to make data on infrastructure in our area available (if not already), and the impact it has more visible, which in turn will help inform strategic investment decisions.
* **'Em-Powering' our strategic networks** – we will be evolving our networks and strengthening our own local presence in the utility infrastructure debate, as part of a co-ordinated cross LEP, regional and national approach.
* **Managing our risks and embracing our opportunities effectively -** Assessing the viability of shared risk and innovative financial investment - aimed at supporting an overall strategy, of looking at available options and solutions in this area, whilst also supporting local opportunities.

To support this evolution, we will also co-ordinate communication to business, as a joined-up offering of regional, national and potentially international support, through our own networks and in close collaboration with regional partners. We will, in collaboration with MP's, Government Departments, such as BEIS, and other stakeholders, launch pilots for Business improvement and change.

We hope that you will find the information contained within this letter useful, and are happy to have further discussion, around the issues raised.

Yours sincerely



Ruth Carver

LEP Director

Cc Ursula Lidbetter, Chair of the Greater Lincolnshire LEP

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# Appendix 1 – Greater Lincolnshire LEP Utility Summit Feedback

# Local Conditions

**Background information**

* Development in Lincolnshire disadvantaged by peripheral location – not a level playing field with other parts of the country.
* Characteristics of Lincolnshire are important, but not always well articulated to a wider audience:
  + Heavy industry users
  + Lack of large developers
  + Rural
  + M.O.D sites
  + Certain areas strong on energy; renewables, PV, etc
  + Coastal areas
* Large developers are often able to bear the costs of utilities connection, whereas Greater Lincolnshire on the whole doesn’t have as many large developers which mean that development is not unlocked.
* We must keep our communication clear – it’s all about water, gas, sewage, and electricity. Not just electricity! (Though note that the IDBs whose role is to manage water supply think that their pumping systems are some of the heaviest users of electricity and reminded us helpfully that 50%+ of the nation's electricity is produced in areas that are kept safe from flooding by IDBs...check the accuracy of this but it's a useful statistic if true).
* Lincolnshire disadvantaged by geography – coastal and at the edge of networks.

**Planning**

* Onus on local authorities is to identify viable development sites in the local planning process. Without utility provider engagement, this is impossible. Utilities respond to applications, not to local plans. Identifying works required through this process could allow for a S106/CIL type approach, socialising costs. Also, results in a reactive approach without long-term planning.
* Engagement on local plans and on utilities' 5 year strategies needs to be two-way – there are great examples from transport where planning and information from public and private sector.

**Operational**

* Costs
  + Upfront costs, compounded by timing and marginal nature of Greater Lincs values.
  + To existing operators: TRIADS.
* Timing - Very notable issue with timescales given for reinforcement works, particularly regarding electricity (other participants noted similar issues with Anglian Water).
  + Eg, design for water intervention taking 50 weeks.
* Information
  + Eg, Utility companies, particularly power with non-residential users need detailed information about demand.
* Good local engagement from utility providers, but not systemic, and doesn’t seem to be incentivised.
* Utility providers bear no risk on the delivery of their works – all risk is passed to developer/contractor, who typically work to fixed costs/penalties system. No liability on utility providers' part regarding reliability of quotes.
* Discussion of instances of enquiries being renewed every 6 months and capacity suddenly disappearing as not held.
* Less uncertainty regarding residential development – but local authorities are not able to provide similar certainty to utilities for commercial sites.
* Striking that each of this morning's speakers commented on trying to avoid the major costs of new infrastructure. Lindum gave an example of employing a specialist to help solve a problem for a company, taking their new utility installation cost from 900K to about 120K. The cost of the specialist was high, but OFGEM recognised that it was still much cheaper than investing in infrastructure. Do we find more specialists, or is this part of a wider symptom???
* There is a concern that some of the businesses with utility problems right now will have heard all sorts of good long-term ideas, but is there anything that could be done in the short term to help them?

**Role for LEP**

* Question to LEP - like all other tables, can the LEP help strategies and delivery of local plans to be better understood by the NDOs? Other role for LEP?
* Could the LEP work with its most internationally relevant businesses (Siemens, British Steel were on our table) to find out what happens in different countries and whether there are any lessons that could be learnt?
* Can we get Atkins to do any work on innovative ways of solving the problem of too much utility usage at the wrong time? I didn't get the sense that people in the room were thinking that way...and I'm afraid that we will have to because there simply isn't enough money in the country to invest in all of the necessary infrastructure.
* If we want to look at best practice, is there anything we can learn from the way that partners came together in Water Resources East? What were the successful ingredients of that partnership?

# Regulatory Opportunities

**Background**

* Response that regulation aims to ensure ‘cost reflexivity’ of developers contributions – the cost is the cost.
* Better engagement and exchange of information on the part of utilities doesn’t require regulatory change, they can do that themselves.
* Utilities firms have competing priorities and are ultimately private companies who need to please shareholders and their regulators. Regulators do not push the growth aspect enough, for a Government with a focus upon growth; more can be done.

**Reality**

* ‘Second comer’/rebate system poorly designed given way the market works – contractors/developers can’t factor this in to their decisions as too risky.
* Incentivising DNOs is important, but cannot wait to commit.
* Transparency of regulatory environment is important.
* Complexity of regulation is a challenge: acute issues, the model, flexibility and freedoms are unknown – presentations suggest there are but other areas appear to be closer to it (eg, London).

**Solutions**

* Potential solution to second comer issue in developing consortia – local authorities and utility providers to take active role in this.
* Limitations of the ‘minimum cost option’ approach – short-termist, prevent larger scale or longer term development. Potential solution in that this isn’t mandatory, utility providers and local authorities together can negotiate up.
* Holistic view over infrastructure is needed, and the Atkins report appears to be a good step but further work is needed.
* Interest in rebate model form attendees, like local authority business rates – potential to learn from transport sector.

# National Perspective

**Background**

* Participants (particularly developers) indicated that they had never been invited to this sort of collaborative process, and tend to operate in isolation. Role for local authorities to encourage further.

**Reality**

* How respond to opportunities around offshore wind?
* Industrial Strategy and National Infrastructure Commission and MP engagement are the tools to try and change how utilities contribute to growth, further emphasis on growth is needed.

**Solutions**

* Although controversial, infrastructure or utilities tax akin perhaps to the way water industry is going.
* Question to government – could the Industrial Strategy be used to rebalance the definition of "utility customer" away from just domestic customers? (Does government have the appetite for this?). (Or majority?).
* Question to government – at the moment, NDOs have a duty to consult with the planning authorities when they write the local plan...should a duty to co-operate be introduced?
* Question to government – we think the Industrial Strategy should set out clear steps to solving this big problem of the incompatibility between utility supply and demand. How well can that be articulated in the strategy and what are the steps that should be taken along the way? How can progress be measured and scrutinised?