

Energy UK
Charles House
5-11 Regent Street
London, SW1Y 4LR

24 January 2018

Dear David,

RE: The Electricity System Operator Regulatory and Incentives Framework from April 2018

Sent via email

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

Energy summary of key points

We welcome the opportunity to respond to this consultation and broadly support Ofgem's attempts to revise the incentive scheme to be more effective for the benefit of the consumer.

However, we are concerned that there is uncertainty in this model of SO incentives, that there is significant responsibility for the SO Panel, positions on which are yet to be filled, and that the scorecard is too subjective and arbitrarily linked to financial rewards. Energy UK is also concerned about the doubling of the incentive from +/-£15m to +/-£30m and does not think that Ofgem has justified this significant increase.

Our response

Energy UK believes that if there is a net saving to the consumer as a result of an SO action, project or programme, then there is justification for some financial reward. Therefore, what could arguably be key to the success of the SO incentives scheme between 2018 and 2021 is transparency of costs and benefits. As a part of the new SO incentives scheme, National Grid is being asked to produce a forward plan every year and Energy UK's position is that this business plan should include a cost benefit analysis of projects/programmes where the savings for the consumer are transparent.

Energy UK is broadly happy with the approach taken towards the ESO forward work plan. The forward work plan should be detailed and have tangible deliverables by which the ESO should be measured against. For example, an IT project plan such as EBS. It is important that the consultation on the forward work plan is robust and Ofgem has oversight. Ofgem has specifically asked if stakeholders agree with the suggested within year reporting, and Energy UK does support the proposed approach.

As noted above, Energy UK is concerned by the evaluative scorecard for the incentives that the panel will use and the way that it is indexed to financial reward. As stated above, Energy UK believes that if the ESO has been able to tangibly demonstrate that it has delivered something for the industry and consumers that will save money, then there should be a financial reward. We are concerned that this principle may be lost in the scorecard. However, Energy UK believes that ultimately, the decision lies with Ofgem which should be considering the consumer at the heart of every decision.



The voice of the energy industry

Energy UK has strong concerns with the significant increase to the incentive scheme from +/-£15m to +/-£30m. We do not see that Ofgem has made an effort to demonstrate why there is such a significant increase, and how this is justifiable. Particularly as stakeholders have not had sight of a forward work plan to justify the increase.

With regards to the SO Panel, Energy UK still has concerns that the burden on the ESO will outweigh the usefulness of the panel. However, on the whole, Energy UK is supportive of the proposed arrangements. We are supportive of either an Ofgem or independent chair and are supportive of a mixed current industry and independent personal to sit on the panel. The Performance Panel should have sufficient expertise to determine the nature of the efficient deliverables in the Forward Looking Plan. It is important that the responsibility for SO incentives and financial rewards ultimately lies with Ofgem.

We do not have any comments on the draft text.

Please do not hesitate to get in touch if you have any questions about any of the above comments.

Thanks,

Kate Dooley
Policy Manager

Energy UK
Charles House
5-11 Regent Street
London SW1Y 4LR

Tel: 020 7747 1834
Kate.dooley@energy-uk.org.uk
www.energy-uk.org.uk