Doc Type: **Cover email/response to RIIO-2 Framework Consultation**
From: **Mark Howitt**
Organisation/Company: **Storelectric**

From: Mark Howitt [mailto:]
Sent: 09 March 2018 13:53
To: RIIO2 <RIIO2@ofgem.gov.uk>
Subject: Storelectric consultation response on RIIO

Dear sir/madam,

We do not operate in the consumer end of the business, therefore I have little to say on the majority of your consultation. However there are a few relevant points:

Framework Duration

You are minded to reduce the RIIO period from 8 years to 5 to reflect the faster timescales of the grid's evolving requirements. That is wholly wrong, for many reasons:

1. The biggest problem on the grid is the current lack of large scale investment, mainly because the current RIIO framework does not permit sufficient returns on those assets. We are using major assets built decades ago, adding minor assets to extract maximum use from them. However these major assets need replacing, upgrading and new ones building. Reducing the framework duration reduces those pay-back times even more, thereby making the problem worse.
2. RIIO is a static 8-year period. Therefore an investment half-way through can only recover its costs over a 4-year period (or, as you recommend, 2.5 years). This is entirely impractical. It also leads to great unevenness in investment, with only very cheap projects being authorised towards the end of the period as the required pay-back time is so short. Instead, pay-back times should be rolling periods - a rolling 8 years, so any investment at any time can have 8 years to pay back. Even this is not enough for some assets - new grid lines may have 10-15 year paybacks.
3. Elsewhere you say you seek to reduce industry costs. Increasing the rate of change, the undertainty and hence the regulatory risk (already the highest regulatory risk premium in Europe) is entirely counter-productive in this way.

Consumer Voice

Giving consumers a stronger voice seems to be counter-productive. If it had been up to consumers, the grid would never have been built: while they want a perfect system, they are unwilling to pay for it. And when the system is changing (de-carbonising) as fast as at present, consumers have very little appreciation of the changes and costs involved.

Innovation

You claim to seek to drive innovation, but you do little to support innovation by enabling the long term contracts and pay-backs that innovative capital plant needs in order to be built.

And the increasing regulatory risk (above) is current seen as the number one disincentive to investment in new technology.

Investors see three main types of risk: technical, commercial and regulatory. They can support two, but not all three. Innovations have, by definition, technical risk and commercial uncertainty / risk - therefore you need to find a way to eliminate regulatory risk for innovations, maybe by contracts of sufficient duration, and/or letters of intent - and certainly by slowing the rate of movement of the regulatory playing-field.

Regards,
Mark
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Mark Howitt
Director, Storelectric Ltd