

12 March 2019

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By email only to RIIO2@ofgem.gov.uk

Dear Martin,

RIIO2 Methodology Consultation Response (Ofgem publication 18 December 2018)

Thank you for the opportunity to provide a response on the above consultation.

Without doubt the energy market is undergoing a period of significant change with forecast uptake of electric vehicles, increased distributed and renewable energy generation, as well as the development of digital technologies. Core to Costain's strategy is to be supporting the UK's low carbon transition, for example our combined research and development with 25 fulltime PhDs unlocking new knowledge in areas such as hydrogen, carbon efficient composite materials and future urban energy infrastructure needs. It remains vital that the RIIO2 framework enables the right conditions that fosters investment in our energy networks including from the supply chain and drives continuous innovation to ensure the changing ways customers are using energy is met.

Costain's purpose is to improve lives with smart infrastructure solutions across the UK's energy, water and transportation markets. We help to safeguard the security, increase capacity, improve customer service and drive efficiency for our client's infrastructure programmes through operating as a trusted and collaborative partner.

This RIIO2 framework methodology consultation period is an important time that will shape the industry for the next five years and beyond. We are supportive of the RIIO2 objectives to provide safe, secure and reliable energy networks and systems for existing and future consumers including introducing a simpler outcomes-based framework (Ref Section 1.4, p6). In order to successfully deliver this, it remains important to ensure the UK energy supply chain are also incentivised through innovation and consistency of network improvement programmes for continued investment in the skills, capabilities and equipment needed to deliver the necessary services required by network companies throughout the RIIO2 period. As such, the supply chain plays a vital role in the delivery of sustainable solutions, next generation leadership (Ref Section 6.50, p49) and long-term value for money (Ref Section 1.42, p10) for UK energy networks.

We have identified the following key responses for your consideration:

- **It is clear the current RIIO1 framework has** delivered improvements and efficiency for customers which no doubt is providing a foundation for RIIO2. As a core service provider for UK energy networks, our supply chain services have continued to improve during RIIO1 reflecting the application of innovation and new ways of delivering efficient and cost-effective network improvements. We support the RIIO2 innovation investment including the

introduction of a new innovation funding pot to replace the NIC and better focus on the big strategic innovation challenges within networks (Ref Section 8.12, p67).

- **Proposed RIIO2 returns from RIIO1 are too extreme.** To secure investment in the energy networks such as capital or new technologies to drive long term efficiency and better service, it is vital that networks can achieve attractive returns. We are concerned current proposals would create a lack of certainty for investment in the sector which has the knock-on consequence of forcing behaviours which are more risk averse, including transferring inappropriate risk to the supply chain further compounding the economically challenging and unsustainable position that the UK construction sector is currently in. Further, this limits supply chain innovation investment in opportunities like offsite manufacturing and digitisation including BIM, decarbonisation technology and next generation learning & development. All of these could also decrease the efficiency of the supply chain, increase costs and, in its most extreme case, jeopardise longer term investment in, or withdrawal from the sector (Ref Section 10.0, p98).
- **The decarbonisation of heat and transport remains a significant challenge for the UK** particularly to meet the 2050 targets in the most cost effective and least disruptive manner, as such we believe;
 - Gas networks must continue to play a key role in this and RIIO2 needs to encourage asset optimisation and innovation, including setting the regulatory conditions to underpin, for example, a transition to hydrogen fuel (Ref Section 7.19, p60).
 - Electricity networks capacity to accommodate renewable energy including increase in multiple new entrant connections, needs to be underpinned by a RIIO framework that can accommodate this. For this reason we are supportive of Ofgem's approach to view the energy system needs as a whole system as opposed to specifically from a transmission or distribution perspective. This approach should ensure lowering of costs such as balancing services and network reinforcement whilst fostering the growth in renewable energy generation and connections (Ref Section 5.9, p33).
- **Supply chain collaboration** remains vital to ensuring the safe and efficient delivery of network improvements and achievement of targets such as decarbonisation. This ensures best practice and innovation is harnessed and shared on a cross network basis including improved methods for the project management, technology led engineering solutions and project controls delivery of schemes therefore maximising returns. We recommend the supply chain forms in part the proposed working group membership (Ref Section 7.36, p63).

We hope that you will find our comments helpful and would welcome opportunity to discuss any part of this response. We look forward to further dialog to develop this further.

Yours sincerely,



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