

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

Link to Consultation Material and supporting information

<https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-consultation>

About BEAMA

BEAMA represents manufacturers of electrical infrastructure products and systems from transmission through distribution to the environmental systems and services in the built environment, with over 200 members ranging from SMEs to large multinationals.

We work with our members to ensure their interests are well represented in the relevant political, regulatory and standardisation issues at UK, EU & international levels.

BEAMA member products provide a sustainable, safe, efficient and secure UK electrical system. We support our members in ensuring that the UK has a strong electrotechnical industry which is recognised as an essential part of modern society and brings invaluable economic, social and environmental benefits.

Introduction and Key Themes

This is Ofgem's consultation on the methodology they will apply for setting the RIIO-2 price controls for the gas distribution and gas and electricity transmission networks and the electricity system operator. These price controls will run from 2021-2026.

The next price control for electricity distribution network operators will begin in 2023 and Ofgem are not consulting on proposals for the sector at this stage. As indicated above, certain measures set out in their current thinking in this consultation document could, in principle, apply to RIIO-ED2, but this would be subject to future consultation on our proposed sector specific methodology.

Themes
Giving consumers a stronger voice
Reflecting what consumers want and value from networks

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

Enabling whole system solutions
Ensuring future resilience
Managing uncertainty
Driving innovation and efficiency (Chapter 8)
Simplifying Business Plan assessment
Fair returns and finance-ability

Our Response

BEAMA acknowledges that many of these themes will transfer into the development and approach for ED RIIO2. BEAMA have interests in both electricity transmission and distribution and as such will monitor developments here and ensure that the necessary scrutiny is provided from a supply chain, asset investment and technology perspective.

An enhanced role for the supply chain

ETQ5. We welcome views on whether a specific incentive for stakeholder engagement is appropriate in RIIO-ET2, and if so, whether this should reputational or financial.

Please see below.

ETQ7. We invite views on types of Business Plan commitments that would be appropriate for stakeholder engagement.

In response to ETQ5 and ETQ7 - BEAMA strongly contends that the supply chain for T&D products and services should be included amongst the stakeholder groups and its role a key element of critical national infrastructure recognised. Delivery of the RIIO 2 outputs will depend on the capability of the supply chain and their views must be considered. Network companies should be expected to set out their supply chain strategy as part of their business plans. It follows that, they would need to include the supply chain in their stakeholder groups.

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

Whilst it is highly desirable to take account of consumer views in developing the business plans, it is unlikely that many consumers will be equipped or willing to understand the more technical aspects of the network plans, manufacturers and technology providers are well equipped to provide due scrutiny and are a recognised source of technical expertise within the industry. It would of great value if the network companies were able to explain these aspects to a broader public audience and should be judged on their success in this. This may force them to identify the essence of their proposals and inhibit the tendency to hide important issues within extensive detail. Alongside this exercise, Ofgem should also look to other stakeholder groups for feedback on the effectiveness of the network business plans, primarily those group that are undertaking detailed review of these aspects of the plans. This is reflected in the Ofgem proposals for transmission but should be extended to distribution.

Whilst load related investment can be subject to uncertainty, network maintenance should be more predictable, and it should be subject to longer term planning, particularly with increasing electrification of transport and in the longer term heating, in order to meet legislated carbon reduction targets. It would assist the supply chain if these plans were set out over a longer term. It would also assist if maintenance needs were planned over a longer term so that new approaches had longer investment periods to compete for. When considering innovation manufacturers have real experience of the innovation environment and related developments over the past 8+ years.

The demands of the energy transition will require that all stakeholders take a full part in identifying the best way forward and that their views are essential to this process. In the days of RPI-x it was appropriate for the regulated companies to take responsibility for passing on cost pressures to the supply chain. However, for RIIO 2, the knowledge and capability of the supply chain is a vital component and the consultation process should aim to involve product manufacturers and providers of technology and services. This is best done via appropriate Associations to ensure the input of industry consensus views – BEAMA cover the end to end electrical supply chain and have well developed capability in this area

Now that RIIO T2 consultations are underway and RIIO ED2 work is planned, we want to take the opportunity to, specifically highlight the following key objectives:

- The opportunity for the supply chain to be effectively represented and to be recognised as RIIO stakeholders who can feed into and scrutinise the RIIO business plans, as discussed in the summer

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

- Ensuring that BEAMA is listed on the relevant distribution list and stakeholder lists so that we have the opportunity to attend events and represent our members
- Providing a conduit for Ofgem to effectively engage with the supply chain
- Ensuring fair, reflective and proportionate RIIO outcomes for UK consumers and the UK supply chain
- Fostering an effective and collaborative relationship with Ofgem and other stakeholders during the RIIO development process

We have commitments from our members to engage in the RIIO development process via BEAMA.

Low carbon, flexible optimised solutions

BEAMA members have well advanced technology solutions for flexibility services, and over the years, incentivised by Government Policy and targets, have developed efficient low carbon heating, hot water, transport and energy management products. Many of these products are available on the market today and our members are waiting for the emergence of flexibility services and the associated cost benefits for consumers required to release the key benefits and value this market could offer. Delay in delivering the market changes necessary will lead to the loss of market opportunities in the UK for storage, networks, low carbon heat and hot water systems, and much more.

The ambition from UK Government has been very evident, but the delivery of the necessary changes by Ofgem and UK Government seem in conflict with this ambition – Smart Systems and Flexibility plan. BEAMA members fully support urgent action to focus and bring forward actions in the flexibility plan associated with regulatory reform and market design. Focus should be on prioritising market enablers – specifically here we refer to market design actions – e.g. pricing and network charging - which are fundamental in enabling a cost reflective market for flexibility. Without this there won't be the incentive for consumers to buy smart appliances, devices, storage, smart chargers etc. Until we get the market offering correct for consumers, it will not be possible to market and label smart appliances and low carbon technologies appropriately into the market.

Giving consumers a stronger voice (chapter 3 – page 21)

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

We (Ofgem) expect network companies to work with the Customer Engagement Groups in Distribution, User Groups in Transmission and for the ESO, and the RIIO-2 Challenge Group to challenge and scrutinise their Business Plan proposals. We will take into account the views of these groups in our assessment of each company's Business Plan.

The consumer plays a critical role in the development of our new flexible energy system but outcomes will depend on many factors, including their willingness to engage. We welcome engagement with all sectors of industry and the need for customers to be effectively represented by relevant associations and those with social and customer responsibilities.

As outlined in our 'An enhanced role for the supply chain' section response we also recommended a role for supply chain representatives, who can provide the expert scrutiny required in terms of technology plans, resilience, business plans, opportunities, innovation and supply chain responsibilities

Reflecting what consumers want and value from networks (chapter 4 – page 23)

We (Ofgem) are proposing three output categories that describe the outcomes for consumers that we are seeking to achieve. We provide more detail on how we will use licence obligations and price control deliverables to ensure delivery of projects and services that companies are funded for. We describe how we will use incentives to encourage performance improvements, including the consideration of more dynamic, relative targets. We also explain how we expect companies to approach the design of any bespoke outputs identified through their engagement activities.

BEAMA recently supported the publication of the report Redesigning Regulation alongside other partners including the Energy Systems Catapult, Imperial College, Tech UK and other key stakeholders. This report identifies the need to simplify and reform the current regulatory regime and we believe Ofgem and BEIS need to be radical in their approach to design a market and regulatory structure that will get the most out of a flexible energy system for customers in the long term.

Output categories questions

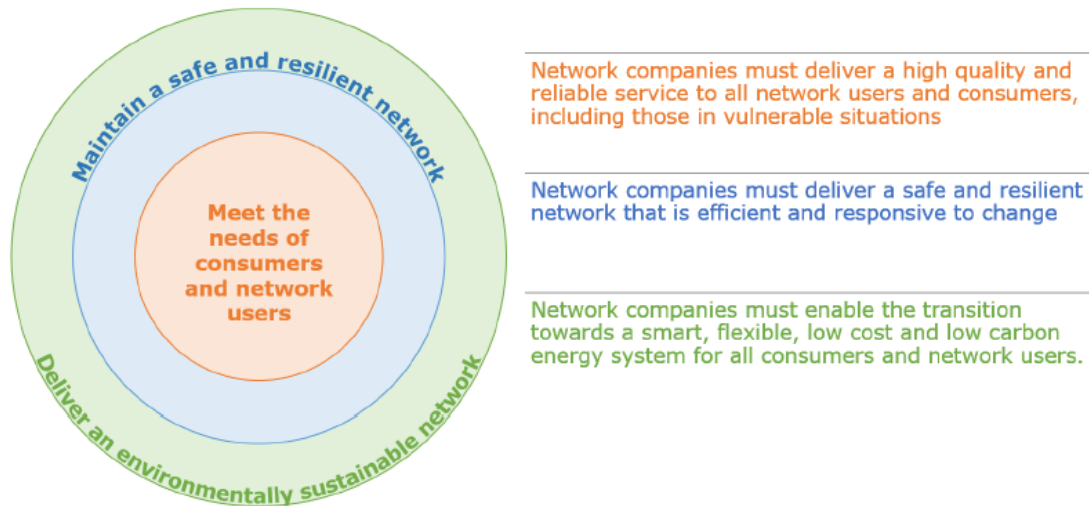
Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019



CSQ1.

We support of Ofgem's proposed approach for considering the extent to which a successful appeal has consequences, if any, on other components of the price control.

CSQ2. Do you agree with our proposed three new output categories?

BEAMA agree with the output categories defined in the image above.

CSQ3. Are there any other outcomes currently not captured within the three output categories which we should consider including?

No comment.

Overarching outputs framework questions

We (Ofgem) welcome stakeholder views on our approach to the overarching outputs framework in RIIO-2, including:

CSQ4. Do you agree with our proposed overarching framework for licence obligations, price control deliverables and output delivery incentives?

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

Price Control Deliverables (PCDs) will capture those outputs that are directly funded through the price control settlement. Ofgem will incentivise service level improvements through Output Delivery Incentives (ODIs). They propose to set a number of common sector-wide ODIs within each sector, and (where appropriate) across sectors.

PCDs appear to strike a sensible balance between licence obligation and project specific arrangements, however they can only provide the correct incentive if there is sufficient information transparency between TO, Ofgem and stakeholders. In particular it is important that supply chain have access to and understand the real level of risk and penalty on the licensee associated with non-delivery of a PCD, to ensure that the most efficient contractual provisions can be used. If information is not transparent, risk is simply transferred from licensee to supply chain, potentially resulting, ultimately, in sub-optimal arrangements for the consumer. We agree that PCDs should be linked to licence conditions where relevant and agree that they should be flexible enough to allow for “updating” to take place where it is appropriate, provided that there is a suitable balance between certainty and efficiency.

Also agree with the ODI in principle, providing that the level of incentive is carefully managed and reviewed regularly enough to ensure it continues to deliver the intended outcome.

CSQ5. Do you agree with our proposals to introduce dynamic and relative incentives, where appropriate? Are there any additional considerations not captured in our proposed framework which you think we should consider?

Agree with proposals to introduce dynamic and relative incentives where appropriate and would welcome further engagement on what is to be proposed in more detail. In particular, the use of a “frontier” company in respect of dynamic incentives – we would propose a wider view of frontier companies for benchmarking than simply those active in the UK and perhaps include a view of our European counterparts to assess whether the TO has genuinely moved to the forefront of what is efficient and sustainable.

It is important to consider the outcome of incentive performance by the TO in the round and ensure that outperformance in one area does not encourage accepted under delivery in another. Licensees should be encouraged to deliver against incentives in all areas to ensure that the UK meets its ambitions on the networks of the future.

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

Bespoke outputs questions

We (Ofgem) welcome stakeholder views on our approach to bespoke outputs in RIIO-2, including:

CSQ6. Do you agree with our proposals to allow network operators to propose bespoke outputs, in collaboration with their User Groups/ Customer Challenge Groups?

Yes. As outlined in our 'An enhanced role for the supply chain' section response we also recommended a role for supply chain representatives, who can provide the expert scrutiny required in terms of technology plans, resilience, business plans, opportunities, innovation and supply chain responsibilities

CSQ7. When assessing proposals for bespoke financial ODIs, are there any additional considerations not captured which we should be taking into account?

No comment

Enabling whole system solutions (chapter 5 – page 32)

Overall BEAMA fully supports this move to ensure system operators are actively working together to maintain and develop a more efficient end to end system. We do not believe the current regulatory system and market structure is conducive to a whole systems approach, and while it is good to see license conditions being changed to reflect a greater need for this we hope this will not distract from reviewing more fundamental aspects of the regulatory structure across the system and how this can be radically changed to better suit a systems approach. Here we refer to recent work – ReDesigning Regulation¹- for which BEAMA and Ofgem were key contributors.

BEAMA recently responded to the review of the Smart Flexibility Plan. In our response we call for a greater need to co-ordinate actions being undertaken as part of this plan as we currently see actions being undertaken within the constraints of an existing regulatory framework and this is in some cases resulting in solutions counterproductive to the overall Government ambition for a flexible and decarbonized energy system.

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

BEAMA have identified that the definition of whole system in this review is not truly reflective of a 'whole system'. By definition in the guidance this refers only to electricity and distribution. To truly recognize whole system efficiencies, we need to be looking at the whole power system, in addition to heat provision and gas. The current system may make it easier to think in electrical transmission and distribution terms only but referring to our previous statement a more radical review of how we do this at a system level needs to be applied. Therefore, we do not support the scope and definition of the license condition and guidance changes being proposed, or at least these cannot be presented as a truly 'whole system.'

BEAMA fully support any move to improve the transparency and openness of reporting relating to system requirements, and in particular network planning and investment operations, with forecasting. Given the changing needs of the system our members recognise the technologies, services and solutions needed in the coming years may be different, and it is hard to know based on RIIO plans alone quite what the system, not just stand-alone network operator needs will be. Better forecasting and reporting will help the supply chain gear up for the change needed and our members continue to produce innovative solutions and offerings as a result.

Furthermore, we have been working with our EU Association T&D Europe to ensure the new EU Electricity Directive, now finalised under the Market Design Package, includes requirements for monitoring and assessing the performance of the transmission and distribution systems in relation to the deployment of smart grids and the associated efficiencies that could be provided. This includes a requirement for reporting on a two-year, rather than four-year basis. This is all outlined in Article 59 of the new Electricity Directive. BEAMA see this as a strong legal basis, that would be supported by Ofgem's changes to the license conditions and guidance, in support of monitoring and planning for smarter system functionality. It is now down to member states to determine how this is implemented and BEAMA would be keen to discuss this with Ofgem and particularly, whether there is scope to develop an indicator that can aid the planning for more efficient system management.

We acknowledge that funding transfers between licensees may be appropriate in circumstances where material additional costs would be incurred', but for an effective approach to managing the system there needs to be clearer ways of sharing costs and value across the whole system. This is equally important when considering how to optimise flexibility on the system which is another element within the guidelines. More detail is perhaps needed here for stakeholders to aid understanding in terms of how network operators will be sharing costs and funding for the implementation of system

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

efficiencies, especially where one might be implementing measures to the benefit of another. It should be recognised that in some energy system cases, the network company may receive less income if it opts for the efficient whole system option. Ofgem must ensure that network operators are incentivized to choose the whole system option.

In our response to the Smart Flexibility Plan review BEAMA highlighted the need to prioritise action associated with market design and particularly the need for a more effective charging methodology and reflective pricing for the system. We appreciate Ofgem have undertaken a review of targeted and forward charging, and BEAMA responded to this. In our response to the targeted review we highlight the urgent need for all elements of the charging regime to be reviewed together and changes implemented at the same time. We will also be launching the next report in our Electrification by Design series which will focus on the need for innovation in charging regime in order to enable a truly smart system, and a system that delivers value and opportunity for consumers and market participants.

Effective whole system coordination will open-up new opportunities for distribution connected flexibility providers to provide services at a local level, either aggregated or provided by a single asset. Provide visibility of network needs at distribution and transmission boundaries and better inform needs here in terms of flexibility requirements, generation visibility and network management and better inform system needs and requirements at those network locations. This should in principle allow network operators to more efficiently manage their networks and underpin the potential for new services and opportunities for market participants, with the caveat that this is very much a first step in the wider whole system developments required.

We encourage engagement with market participants on whole system approaches and wider aspects of the energy system transition including the RIIO 2 framework development and including (but not limited to) network operator business plans to ensure that they are suitably developed and appropriate for the system and fit for all market incumbents, and more importantly reflect the system development we need to see in the coming years.

Finally, we highlight the need to capture and find a solution for current difficulties sharing IP between licensees as this topic often presents the first barrier, rarely overcome, to collaborating in earnest to deliver whole-system investment.

Enabling whole system solutions questions

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

CSQ8. Do you feel we have defined the problem correctly?

Proposal seems fairly broad and there a significant number of tools and incentives at the regulators disposal.

Ensuring future resilience (chapter 6 – page 40)

Cyber resilience questions

CSQ32. Do you agree with the scope of costs that are proposed to fall under cyber resilience, i.e. costs for cyber resilience which are (1) incurred as a direct result of the introduction of the NIS Regulations, and (2) above 'business-as-usual' activities? Please explain your reasons and suggest further or alternative costs you believe should be considered.

No comment.

CSQ33. Do you agree with our proposed approach of ex ante 'use-it or lose-it' allowances? Please explain your reasons and suggest alternative approaches you believe should be considered.

No comment.

CSQ34. Do you agree with our proposal to include a re-opener mechanism for cyber resilience costs? Please also provide your views on the design of the re-opener mechanism.

No comment.

General output questions

ETQ49. What are your views on the overall outputs package considered for this output category?

No comment.

ETQ50. For each potential output considered (where relevant):

a) Is it of benefit to consumers, and why?

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

- b) How, and at what level should we set targets? (e.g. should these be relative/absolute)
- c) What are your views on the design of the incentive? (e.g. reward/penalty/size of allowance)
- d) Where we set out options, what are your views on them and please explain whether there are further options we should consider?

No comment.

ETQ51. What other outputs should we be considering, if any?

No comment.

ETQ52. What are your views on the RIIO-ET1 outputs that we propose to remove?

In addition to the above questions, where relevant, please see the supplementary output specific questions below.

No comment.

Supplementary output specific questions

ETQ54. Do you agree with our proposal to retain the NAP as a licence obligation?

No comment.

ETQ55. Do you have any views on the potential risks and benefits of introducing a single, consolidated NAP, and of expanding the NAP to cover interactions with third parties?

No comment.

ETQ56. We welcome views on these proposals, and on any potential interactions and/ or duplications between these proposals, the NAP and the STC.

No comment.

Successful delivery of large capital investment projects

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

ETQ57. Do you agree with our proposed approach for ensuring TOs do not benefit financially from delays in delivering large capital investment projects?

No comment.

ETQ58. We invite views on the suitability of the milestone approach, the types of milestones or delivery criteria we should be considering and any potential challenges associated with implementing such an arrangement.

No comment.

ETQ59. Are there any alternatives which we should also consider?

No comment.

ETQ60. We invite views on the circumstances we should consider options for minimising consumer detriment and/ or sharing consumer detriment with consumers.

No comment.

ETQ61. We are seeking views on these two options, including ways in which we could measure and reflect consumer detriment.

No comment.

ETQ62. Are there any alternatives not identified here which you think we should be considering?

No comment.

Managing uncertainty (chapter 7 – page 56)

The pace of change within – and range of possible futures for – the energy system increases the risk that many assumptions we make at the time of setting the price control will prove to be wrong. In this section, Ofgem describe our proposed approach to designing a price control that can flex to

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

accommodate a range of different future scenarios and to protect consumers and investors against the risks of stranded investment.

Under the five-year price controls, Ofgem propose to use uncertainty mechanisms to reduce the reliance on a fixed forecast, and instead allow revenues and targets to adjust to changes. Their view is that this will include a greater use of indexation, such as for Real Price Effects.

Asset Stranding and Network Utilisation

It must be recognised that, in a time of rapid change, especially in demand for connections and power, that there is a real danger that demand for electricity arising from EVs can increase faster than network companies (and their supply chains) can satisfy. It follows that there is risk both in unnecessary investment and delayed investment. Simply waiting for the need for network investment to reveal itself and then to respond can be very negative for consumers. Network companies should be expected to state in their business plans how they are dealing with the balance between these risks and be measured against their performance here.

This is essentially a question of who to trust; which parties can be relied on to make neutral and, as accurate as possible, judgements on the future needs of the networks and consumers. It may be necessary to agree future demand scenarios and allow the networks to invest in meeting these demands with limited penalties for stranded investments. It will be important to establish the roles of TSO and DSO to ensure a neutral view on what future demand will be and whether there is a credible plan to meet it.

There are various options for meeting increased demand for power (for instance flexibility and reinforcement) and there is a need to decide early what approaches will be viable and their expected outputs so that network planning can be based on best understanding of available technologies. Based on this approach the networks should be expected to provide strategic plans on how they will meet future demands. The supply chain should also be consulted on what innovation will offer in terms of avoiding simple reinforcement and how that innovation can be best utilised across the wider GB energy system.

Asset resilience questions

[CSQ19. Do you agree with our proposals to use monetised risk as the primary basis for network companies to justify their investment proposals for their asset management activities?](#)

[Bringing power to life.](#)

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

BEAMA welcomes this proposal, although it notes that it will depend on accurate data and the supply chain should be involved in providing this.

The methodology for monetising the risk should be transparent and consistent, potentially allowing for a third party to make the same risk assessment. Further, there could then be a scale of urgency, for example, of network interventions to ensure risk is mitigated at the appropriate time and in the appropriate manner (refurb vs rebuild). Also, consistency should be applied across licensees for similar assets or asset applications. If it is found that one particular licensee has a greater risk and/or likelihood of asset failure, should then expenditure be focussed on that licensee rather than the others until the general risk profile becomes more balanced? Also, what audit might be appropriate for agreeing the licensees baseline condition at the start of RIIO2 as this will be critical in order to establish trust in the data provided.

CSQ20. Do you agree with our proposals to define outputs for all sectors using a relative measure of risk?

We agree with this proposal.

CSQ21. Do you agree with our proposals for defining outputs using a long-term measure of the monetised risk benefit delivered through companies' investments?

We agree with this proposal.

CSQ22. Do you agree with our proposed approach to setting allowances and outputs?

We agree with this proposal.

CSQ23. Do you have views on the proposed options for the funding of work programme spanning across price control periods?

CSQ 22 & 23, Yes, agree with approach to setting allowances and outputs and strongly believe that option 2, the bridged funding of projects between RIIO 2 and 3, is the most effective solution to providing long term benefits, engaging effectively with supply chain and removing much of the uncertainty around regulatory funding which has the effect of delaying benefits to the consumer.

CSQ24. Do you have any views on the options and proposals for dealing with deviation of delivery from output targets?

No comment.

CSQ25. Do you have any views on the interaction of the NARM mechanism with other funding mechanisms?

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

A key objective of the introduction of flexibility mechanisms is to increase the utilisation and loading of networks. This will result in accelerated degradation of some assets and invalidate assumptions that have formed the basis of many asset health assessments. BEAMA would strongly recommend that Ofgem and the network companies work with the supply chain to identify the correct values to use in the NARM mechanism.

CSQ26. Do you have any views on ring-fencing of certain projects and activities with separate funding and PCDs? Do you have any views on the type of project or activity that might be ring-fenced for these purposes?

We would be concerned about the ring fencing of very high value projects as this might result in a perverse incentive for the TO to collect together projects, which could be legitimately delivered separately, into one unwieldy project in order to seek more beneficial incentive arrangements. Given the requirement to respond swiftly to environmental and economic changes, it is difficult to see how ring fencing certain projects and reverting for specific funding arrangements would increase the speed of investment by the TOs. That said, where there is a very obvious “out of step” project which is significantly different from standard reinforcement or replacement activity, there may be a case for ring-fencing. In this case, we would expect Ofgem would consult with stakeholders before taking that decision.

Managing the risk of asset stranding questions

We (Ofgem) have assessed the case for an asset utilisation incentive and placing some risk on network companies to encourage them to size their existing capacity optimally. We do not believe this is merited for either the gas or electricity transmission sectors or in the gas distribution sector, for the reasons set out below. We will consider the possibility of such an incentive for electricity distribution as part of its sector-specific methodology consultation prior to RIIO-ED2.

CSQ39. Do you think there is a need for a utilisation incentive at the sectoral level? If so, how do you think the incentive would operate coherently with the proposed RIIO-2 price control framework for that sector?

Agreed that there is no requirement for GT, ET or GDNO and also agree that it would be worth considering for EDNO.

CSQ40. Do you have any views on our direction of travel with regard to anticipatory investment?

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

No comment

CSQ41. What type of projects may be appropriate for a risk-sharing approach?

No comment

CSQ42. How can we best facilitate risk-sharing approaches for high-value anticipatory investments?

No comment

CSQ43. How can we guard against network companies proposing risk-sharing arrangements for project they may have undertaken as business as usual?

No comment

Driving innovation and efficiency through competition (chapter 8 – page 65)

BEAMA considers that network companies should be taking responsibility for their own R&D activities so customer funded R&D should go towards areas that do not fall under the direct responsibility of the network company and would otherwise not be carried out. Network companies should be expected to set out their plans for their own internal R&D in their business plans and this should be tracked and included in their outputs. Where they have funded R&D with their own investment, network companies should not be expected to share the outputs.

BEAMA proposes that, for technologies that have been developed and demonstrated overseas there should be no need to repeat trials that have already been undertaken elsewhere. The insistence on putting well-developed equipment through a trial stage is acting as a real barrier to the introduction of innovation into the UK. The TSO / DSO should have a role in looking at all options and introducing innovation where this is most cost effective.

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

A better mechanism is required from network operators to provide visibility of innovation trials that have been complete and will actually move to BAU. Ofgem must avoid this innovation funding creating monopolies within the industry.

RIIO Innovation funding serves an important purpose in attracting new players and smaller SMEs into the Industry to help move the industry forward. However, network operators must also engage more proactively with the larger technology companies whose primary motivations are not to be awarded innovation funding. These companies are more than willing to innovate and develop using their own R&D funding if the right level of engagement and detailed problem sharing is provided by network companies. This would represent better value for money for consumers.

BEAMA also considers that the use of tendering for network services will open the market to innovation as the use of innovative technology would most likely result in a lower bid.

In general, risk should be carried by those bodies most able to manage it and this can often be the provider of the service or asset. Care should be taken, though, that the network companies do not seek to offload risks that they cannot control to other companies that are no better equipped to manage them. The views of companies that might tender should be sought to ensure that there is a reasonable balance between commercial risk and reward and that there is fair competition with the local network operator. There is always an inherent advantage to network companies in bidding for much of this work as they can access lower cost funding and this advantage should be neutralised.

Work is required by government and regulator to further promote the replication (roll out of technology outside of the DNO who initially sponsored it) of successful innovation GB wide, to replicate successful innovation network operators require staff resource and business funding. If a technology or solution is proven and will bring about cost savings this resource, business process and funding 'bottleneck' can often be preventative of delivering increased proven innovative solutions at business as usual and the delivery of further customer value. Increased standardisation and the definition of common terminology for innovation solutions across GB will send a clear signal to the market so that technology provider and manufacturers and other stakeholders can respond in kind. It is important to note that it can take several years to take solutions through the various TRLs and to deliver a commercialised network ready product and that innovative solutions are not often delivered in short timescales, the need to prioritise the proven solutions and technologies at GB scale to deliver customer value ensures that innovation can continue through the TRLs in parallel. Funding can facilitate this and provide certainty to network operators and partners to allocate or recruit staff, invest the time and bridge the perceived gap between proven innovation and business as usual.

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

CSQ44. Do you agree with our proposals to encourage more innovation as BAU?

As described in the introduction to this section, BEAMA believe it is essential that innovation at BaU is encouraged and that the demonstrated gaps between innovation and implementation are bridged as soon as possible. There is huge value to be gained by GB consumers and by network operators and market participants in further enabling the benefits and savings offered by proven innovation.

Enabling proven innovation has obvious benefits to the consumer, this is reinforced by the Poyry Report – An Independent Evaluation of the LCNF (2016) which estimates the potential GB-scaled benefit to be between approximately £7bn and £11bn over the current estimated gross benefit of the LCNF – including current as well as future benefits ranging from £1.8bn to £2.4bn. Scaled and replicated successful innovation is key to delivering a smart energy system that can help to meet the challenges of increased renewable uptakes and more diverse network usage by the consumer. For highest priority issues there should be an open call for solutions awarded by the neutral body. Network companies should be incentivised to compete to host the winning bids.

CSQ45. Do you agree with our proposals to remove the IRM for RIIO-2?

The proposed removal of the Innovation Rollout Mechanism (IRM) leaves questions open, in that if network operators have failed to access the IRM at scale, then which measures exist to hold network operators to account in terms of real implementation of proven solutions that would provide a more cost effective, safe and secure electricity system. Enhanced onus should be placed on network operators to demonstrate that they are rolling out innovations on the networks and that these are delivering real benefit and savings.

The Innovation Rollout Mechanism (IRM) is designed to fund the roll-out of proven innovations which will contribute to the development in Great Britain of a low carbon energy sector or broader environmental benefits. To qualify for the IRM, the innovations must deliver carbon and/or environmental benefits or provide long-term value for money to customers. Whilst this could have been a key enabler, there is little evidence to suggest that this is easily accessible and the effort required is proportionate to the value potential on offer to the GB customer. There is evidence that highlights a successful application to access the IRM from SP Energy Networks. The IRM as it is defined and intended could help to bridge the gap between proven innovation and BAU rollout,

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

however the lack of uptake by network operators suggests that this is a complex or disproportionate process as presently defined.

The question we would ask is; if the IRM is removed is there a need for increased visibility of outputs once an innovation project stops spending money from their respective innovation pots?

CSQ46. Do you agree with our proposals to introduce a new network innovation funding pot, in place of the Network Innovation Competition, that will have a sharper focus on strategic energy system transition challenges?

We (Ofgem) propose to introduce a new network innovation funding pot that will have a sharper focus on strategic challenges. This will be in place of the NIC and will focus on defined strategic network-related EST challenges. We want to increase coordination between network innovation projects and wider publicly funded energy innovation projects. By consulting with stakeholders when setting EST-related challenges for the future projects, we aim to enable increased third party involvement.

We welcome the need for a strategic focus on key energy systems challenges and the move away from the trial and demonstration environment in to a more real-world environment, particularly if this drives greater penetration of innovation into network operator businesses. The ongoing need for neutral and overarching awards process is encouraged to ensure that a balanced view is represented across a number of sector backgrounds, this should include supply chain representation who are closer to technological developments and solutions on offer from not only the UK but also the rest of the world.

CSQ47. Do you have any views on our proposals for raising innovation funds?

We (Ofgem) propose that the funds used for this new innovation funding pot will be raised from use of system charges, as they currently are for the RIIO-1 NIC. These charges are recouped from all network consumers and the money raised will be transferred between licensees.

This is an appropriate source of funding as innovation should be encouraged and shared across all licensees, particularly once favourable outputs are established.

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

CSQ48. Do you think there is a continued need for the NIA within RIIO-2? In consultation responses, we would welcome information about what projects NIA may be used to fund, why these could not be funded through totex allowances and what the benefits of these projects would be.

The separate innovation allowance provided by the NIA encourages DNOs to explore solutions to network issues, that they may not otherwise consider funding as part of totex allowances. As the energy system continues to see new challenges, this sort of funding is a valuable resource. That being said, network operators are more than able to fund these projects as part of business funds but would the industry lose the visibility of key outputs and learnings?

In terms of enabling third party innovation and enabling SMEs to scale up offerings to deployment the NIA has been invaluable. The need to minimise duplication is recognised and greater scrutiny could be valuable in ensuring that NIA projects are 'new' and more importantly in ensuring that they compliment or add to existing work undertaken and outcomes are shared in a demonstrable and accessible way.

We would encourage reform, rather than removal on the basis that the NIA if properly executed can continue to add value for the market incumbents and customers, particularly as new challenges arise as result of electrification, new energy usage etc. – The NIA could be vital in providing the necessary resource to deliver fast turnaround projects to address pressing issues and challenges which may otherwise not be funded.

CSQ49. If we were to retain the NIA, what measures could be introduced to better track the benefits delivered?

As outlined in question 48 and in introduction to section.

CSQ50. Do you agree with our proposals for electricity distribution companies prior to the commencement of RIIO-ED2?

As outlined in question 48 and in introduction to section.

ESO innovation questions

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

ESOQ14. Do you agree with our proposals to retain an innovation stimulus for the ESO, but tailor aspects of this innovation stimulus to take account of the nature of the ESO business?

Yes, would add relevant response items from 'Driving innovation and efficiency' section

ESOQ15. What ESO-specific issues should we consider in the design of the ESO innovation stimulus package

Any ESO role required in delivering flexibility services at scale – It would be useful to explore and understand the requirements here.

ESOQ9. Do you consider the types of cost assessment activities we outline in this chapter are the right ones? Are there additional activities you think we should consider?

No BEAMA comment.

Simplifying Business Plan assessment (chapter 9 – page 85)

Ofgem are proposing new arrangements that will reward companies that bring us rigorous and ambitious plans with cost projections that are demonstrably efficient. They are proposing to remove the Information Quality Incentive (IQI) and replace it with a simpler process to determine totex sharing factors and Business Plan rewards and penalties.

Fair returns and finance-ability (chapter 10 – page 98)

In this section, we (Ofgem) summarise our proposed approach to addressing a range of financial issues for the gas distribution, gas transmission and electricity transmission price controls. These include the methodologies we propose to use to determine the cost of debt and equity, our approach to assessing financeability and our further work on developing a cashflow floor as a possible additional measure to address potential downside financeability concerns.

Bringing power to life.

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

There is a danger that Ofgem will become increasingly involved in management decisions made by the DNOs. The basic principles of RIIO are sound and the TNOs and DNOs should have freedom to find the most efficient means of delivering their outputs. What is needed are output measures that are sensitive to the behaviours of the network companies within the period of the regulatory review. For instance, RIIO 1 set network reliability outputs that the DNOs were already largely exceeding. The solution to this is not to move away from RIIO principles but to improve its implementation.

Electricity losses from the transmission network

We will argue that network losses should be funded by the networks and included in the network company allowances. This would be initially a neutral funding change but would strongly incentivise the network companies to invest in loss reduction measures.

[ETQ43. Do you have any views on the proposed approach for integrating any losses reporting requirements into the proposed Business Plan and annual public reporting framework?](#)

BEAMA members consider that incentives for reducing network losses are insufficient. Network companies are the only parties that have any control over network losses but have no responsibility towards them.

[ETQ44. Do you have any views on the introduction of a target or measure for improving metering at and the energy efficiency of substations? How could this work in practice?](#)

[Visual amenity impacts of transmission infrastructure](#)

This could be an important factor in increasing sustainability of the network and one which can be fairly simply and inexpensively managed through digital monitoring tools now available. Efficiency and condition are both largely manually measured, which results in a lack of overall transparency. If TOs were encouraged to monitor energy efficiency as well as condition, it could encourage better targeting of investment to ensure maximum returns from network operation.

[ETQ45. We welcome views on incentivising the TOs' engagement with stakeholders on the development of new transmission projects through our stakeholder engagement proposals, for example through the use of a survey.](#)

[Bringing power to life.](#)

Rotherwick House, 3 Thomas More Street, London, E1W 1YZ

BEAMA Limited is registered in England No. 84313

RIIO 2 Sector Specific Methodology - BEAMA Response

March 2019

No comment.

ETQ46. Do you have views on the retaining the existing scheme to mitigate the visual impact of pre-existing transmission infrastructure in designated areas? Do you agree that any decision to implement new funding arrangements should be subject to updated analysis around willingness to pay?

No comment.

ETQ47. Do you agree with our proposals to modify the implementation process by which funding requests for mitigation projects are submitted and approved?

No comment.

ETQ48. We welcome stakeholders' views on any other considerations they think are relevant to policy development for visual amenity issues in RIIO-ET2.

No comment.