

Dear RIIO Team,

Laing O'Rourke is one of the UK's leading construction and engineering enterprises bringing innovation and excellence to the sector through its digital and offsite manufacturing approach.

Working with customers from the earliest engagement to completion, we advise on and provide the best ways to successfully complete projects and achieve the greatest benefit for our stakeholders – employees, clients, communities and shareholders.

Our drive to innovate and improve productivity through a more efficient, high-tech design and delivery process, utilising techniques that necessitate diverse, highly-skilled, well paid engineers and technicians throughout the UK, certainly complements the main principles set out in your proposals.

We have worked in the energy sector globally; in the UK, specifically with:

- National Grid most recently delivering Wimbledon Asset Replacement
- EDF Energy currently delivering Hinkley Point C nuclear power station

As such we value certainty and stability in a long-term approach.

Rather than submit responses to specific questions contained within the consultation, we wanted to table our general views on the importance of creating a certain and stable energy sector environment.

### **Sector certainty and collaboration**

Certainty of funding and investment from the likes of National Grid and other energy sector clients, provides a pipeline of committed and underwritten projects which allows us to make long-term strategic business decisions.

While we recognise the challenges faced by the sector around tougher price control and best value for consumers, the current RIIO-2 proposals with as much as a 60% reduction in proposed returns is extreme.

This reduction risks positive investment in the sector, and, without this assurance, contractors will be reluctant to add their own investment. All tier 1 contractors operate on low margins, and in the present economic uncertainty would struggle to attract funding for uncertain and indeterminate proposals.

In addition, rather than promote collaboration between stakeholders to drive improvement, innovation and change that delivers better value for consumers, it is likely that relationships between utility companies and contractors will become transactional. As the utility companies look to address a significant reduction in their returns, it is likely that capital costs will be set below a fair level – with inappropriate levels of risk being passed down to contractors.

We also foresee a short-term impact of this approach as energy companies assess and re-prioritise their investments, resulting in delays to projects. The continuity and certainty that we seek would evaporate and therefore reduce our appetite for continuing to invest in sector innovations, including digitisation and BIM. Experienced resources could be



diverted to sectors with greater certainty, and this could result in a significant skill shortage for the delivery of future projects.

We recognise that this sector is in a period of radical change and is constantly striving to find new environmentally friendly and sustainable solutions to energy provision to enable a transition to low carbon. The sector needs to continue to provide reliable energy networks for its customers, and therefore sustained investment into the sector, with incentives that reward innovation and ambition, is vital. When set against the wider political and economic uncertainty of Brexit, historically low interest rates and the potential re-nationalisation of network companies, it is now more essential than ever that the sector provides certainty for all stakeholders – with RIIO-2 being a natural evolution of RIIO-1, rather than a radical step change.

We trust our views will be considered within the consultation process.

**Declan McGeeney**

Head of Infrastructure UK

14 March 2019