J. Murphy & Sons Limited

Ofgem
10 South Colonnade
Canary Wharf
London E14 4PU

Date: 14 March 2019

Sent by email to RIIO2@ofgem.gov.uk

Dear RIIO Team,

REF: RIIO-2 SECTOR SPECIFIC METHODOLOGY CONSULTATION – FORMAL RESPONSE

This is a non-confidential response on behalf of J. Murphy & Sons Ltd (Murphy) to the above consultation. We are responding to both the electricity transmission and gas distribution elements of the consultation and welcome the opportunity to comment on the proposals.

Introduction

Murphy is a leading global, multi-disciplined engineering and construction company founded in 1951 that improves lives by delivering world-class infrastructure. Operating in the United Kingdom, Ireland and Canada, Murphy provides better engineered solutions to infrastructure sectors including transportation; water; power; natural resources; and construction & property. Headquartered in London, we also run a number of related businesses. We invest heavily in our plant and facilities, as well as our 3,500 engineers, professional managers and skilled operatives around the world. Together, we work as 'One Murphy' by directly delivering the people, plant and expertise needed to make projects a success.

Background

Murphy supports Ofgem's position that network companies must continue to provide safe, secure and reliable energy networks and systems for existing and future consumers. As both consumers and key suppliers of construction capability to the gas and electricity infrastructure sector, we are proud to have played our part in developing Great Britain's gas and electricity networks over the past 60 years. We have the following comments on four key areas of the proposed sector specific methodology for RIIO-2 outlined in the consultation document.

1. Investment

It is generally accepted that network costs have decreased and service levels have improved within the current RIIO1. However, the proposed RIIO-2 framework considerably reduces the allowed returns of network businesses to levels that are unsustainable, stating "The next energy network price controls from 2021 (RIIO-2) will be tougher on network companies." We would suggest that a 60% reduction in proposed returns is too severe and could instil uncertainty for construction investment, and in turn affect the level of investment into innovation and future skills for both gas and electricity sectors.

In addition, we could see a major shift in behaviours in a disproportionate transfer of risk from network owners to contractors, and a complete slowdown in the delivery of capital programmes as contractors and resources move to other more attractive competing industries.

To allow businesses to have long term investment plans, they need reasonable returns on their investment. We recognise these have to be fair in the regulated sector, but believe the proposals could potentially negatively affect the long term future of the networks in the next regulatory period.

2. Visual Impact Provision (VIP)

If the evidence is conclusive that customers are willing to pay for the benefit in reducing the impact of OHL infrastructure in designated areas of natural beauty, we would support the inclusion in RIIO-2 to continue with the visual amenity allowances.

3. Skills

One of the main market concerns in both the gas and power sectors is skill shortages. As a company committed to self-delivery and recruiting our own people, we feel these are not being addressed within the current RIIO-1 framework. We would like to see more support and recognition in the RIIO-2 framework to address this. Again, long term certainty and a fair return will encourage successful and sustainable business that can work – with their supply chain partners – to attract the best people and encourage the next generation to choose STEM related careers. The main challenge for the sector is to ensure we remain an attractive place to work when competing to attract available existing and future talent against other industries.

4. Innovation

We welcome Ofgem's ongoing commitment to innovation and strongly believe the need to retain a structured and dedicated innovation funding mechanism, as this provides an excellent route to harness and support (in competition) a broad structure of industry innovation. The current system has been very successful in stimulating and inspiring innovation - such as the number of schemes evaluating the future of hydrogen networks - which we believe is delivering real benefits. These and future projects could lead to major changes and support the key challenges we are facing in this sector, such as how hydrogen could play a part in the energy future. Reducing the strength and scope of the incentives may reduce this innovation at a time where the UK economy needs it most.

Summary

While we welcome and support some elements of these proposals - such as the customer commitment and preparing the networks for the future - the areas above raise concerns for us as part of the regulated utilities supply chain. Long term assets need long term certainty to attract foreign capital across all infrastructure to secure essential services for consumers, and provide needed stability for the supply chain of the regulated utilities. Investment needs to be encouraged at reasonable levels to make the UK an attractive proposition, and we must avoid a return to short-term thinking that could undermine an essential section of the country's economy.

Yours sincerely,

John Kinirons

John Kinirons
Group Strategy & SHESQ Director
J. Murphy & Sons Ltd.