

Dear Sirs,

I am writing in respect to RIIO-2 consultation and would like to raise a few important points from the viewpoint of a contractor who delivers new capital infrastructure for National Grid. Although I feel it is important that controls are in place to ensure organisations deliver efficiently and in the interests of the consumer I also feel it is important that there is a reasonable return for organisations like National Grid to reflect the risks in the sector and provide a viable proposition to the shareholders.

I am concerned that Ofgem's proposed cost of capital range for RIIO2 is too low (lower than water companies), which doesn't reflect the risks in the sector and will drive up financing costs for consumers in the longer term. Also, there is a risk that Ofgem's proposals to reduce the scope and strength of incentives on companies will stifle innovation and ambition, just at the time when the industry most needs it.

A sudden reduction in the proposed returns will create an environment which provides a lack of certainty and ultimately a sector which becomes far less attractive as an investment proposition and consequently far less attractive for the contracting industry. A 60% reduction in my view appears too high and would be counterproductive in providing a highly skilled and innovative sector for the future which is attracting the best people to work in.

I believe that National Grid or any other organisation would be far less willing to invest in the energy sector and as a result lead to uncertainty of capital delivery projects or even the cancelling of capital delivery projects providing uncertainty and a lack of continuity to the construction industry. The net effect of this uncertainty would be a lack of investment in the engineering skills required to deliver what this technically work as the cost and interest of investment is outweighed by the possible returns. The construction industry needs long term planning of developments to provide a smooth but continuous stream of work in order to enable the organisations within the sector to properly plan for and source the skills required for the future. This sudden change in Ofgem's approach to National Grids returns could have a dramatic effect on the future of this sector.

The inevitable result of this approach is that it will lead to a sector where behaviours are more contractual rather than collaborative and innovative, inappropriate share of risk to the contractors and an industry that is unattractive due to unacceptable returns. This uncertainty, low investment and lack of opportunity will in turn stifle the interest of potential employees to enter the sector in the future and as a result leave the industry lagging behind in respect to digitalisation and innovation.

All of the above will probably increase cost to the consumer and jeopardise investment in the longer term and in my view shows Ofgem taking a short-term view at the expense of the longer term which will result in organisations exiting the sector due to it being unattractive when compared to other sectors.

With kind regards | Mit freundlichen Grüßen

Simon

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