



Open Utility Ltd  
(trading as Piclo)  
35 Holland Grove  
London, SW9 6ER  
Tel: +44 788 060 3378  
Email: team@piclo.energy

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Ofgem  
10 S Colonnade,  
Canary Wharf,  
London, E14 4PU

## Piclo Response

### RIIO-2 Sector Specific Methodology

Dear RIIO Team,

Thank you for the opportunity to respond to Ofgem's consultation on the RIIO2 Sector Specific Methodology. We have focused our response on Section 8 (Competitions).

Piclo develops software to make electricity grids smart, flexible and sustainable. Piclo is playing an integral role in supporting electricity networks' to better access and value flexibility resources, integrating low carbon technologies and reducing long-term network infrastructure costs for consumers. Piclo has been deeply involved with the UK energy transition across networks, generation and retail over the past 6 years, and operates Piclo Flex, a pan-UK DSO flexibility marketplace, in collaboration with all six distribution network operators.

Piclo's focus for the RIIO-2 Sector Specific Methodology is to see that flexibility options are valued fairly and accurately, that there is transparency over when these more cost effective solutions are being used in place of more expensive infrastructure investments, and that incentives are aligned to encourage greater adoption of low carbon assets onto networks. We therefore welcome the commitment within the RIIO-2 methodology to use competition to drive cost efficiencies where possible.

#### Early competition models

The models for enabling efficient, scalable and secure flexibility competitions will continue to evolve throughout the current price control period. Therefore, it is imperative that the early competition models should allow for a range of different marketplace types, allowing different business models to flourish, rather than prescribing a rigid process for flexibility procurement. For example, rather than prescribing processes to be only SO-run, different SOs should be free to choose to interact with 3rd party procurement service providers or flexibility exchanges depending on their need.

There needs to be more clarity in how early competitions can move from a consideration of different types of solutions (i.e. new infrastructure build solutions or flexibility), before then moving into a procurement process for the preferred approach. Attempting to procure across different solution types would result in overly complicated procurement processes which would lose the specialisation benefits that can be secured i.e. through flexibility marketplaces.

### **Criteria for who runs the competition**

We see the defining of system need and options appraisal as best led by the SOs and network companies, within clearly prescribed criteria set by the Regulator. However, defining the competition model and running the competitions process (whether through a traditional tender approach, a dynamic purchasing system or transactions via a flexibility exchanges) is an area where independent third parties are best placed to deliver system needs at the lowest cost and in a neutral manner. Coupled with the freedom for SOs to choose different competition approaches, this agility will deliver the best outcomes for networks and consumers.

We do not agree that Ofgem is well placed to operate and run competition tenders for these marketplaces, as it would be insufficiently technically knowledgeable on network needs and insufficiently adaptable to addressing those needs. The ESO is well placed to bring together neutrality and technical proficiency in the transmission network, but the ESO should be able to use third parties to deliver part or all of these services when it improves the effectiveness of the competition process.

We agree with the criteria for independence and technical proficiency. However, the economies of scale criteria incorrectly assumes cost benefits from centralised procurement by the ESO for flexibility services. Independent digital platforms have a proven track record in providing highly scalable and technical solutions in critical industries at low cost.

### **How should competition be incentivised?**

We fully support the best practice principles set out for status quo native competitions. Of the two options provided for enhancing the competitions process, we would welcome 'competition as price finder'. Such an approach would ensure that network build alternatives are required to be considered first ahead of any new investment. The 'business plan process' is likely to result in less market transparency, and with highly variable outcomes depending on different networks' business plans approaches.

In whichever approach is taken, the competitions should provide an allowance based on costs revealed through competition, with a margin or fee for the competition-running entity (including third-party entities).



James Johnston  
CEO and Cofounder