RenewableUK
Greencoat House, Francis Street
London SW1P 1DH, United Kingdom

Tel: +44 (0)20 7901 3000
Fax: +44 (0)20 7901 3001

Web: www.RenewableUK.com
Email: info@RenewableUK.com

ESO Regulation team
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

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Dear SO Regulation team,

RenewableUK's members are building our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We support over 400 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and to access export markets all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

Thank you for the opportunity to respond to the ESO funding methodology for the RIIO-2 price control.

The funding model and the overall incentive framework for RIIO-2 needs to maximise the opportunities in facilitating the decarbonisation of the energy system while ensuring system resilience. Overall, we are not supportive of the 'fast money' funding model as set out in the consultation and believe that adopting this approach may be a barrier to achieving the ESO's ambition to operate the electricity system carbon free by 2025.

Through their licence, the ESO is incentivised to effectively and efficiently balance the energy system and engage in a transparent manner with all of their stakeholders. We are concerned that adopting the all passed-through, 'fast money' approach to renumeration will not provide scope for effective stakeholder involvement, which has proved essential to the energy transition to date. For example, RenewableUK is working with National Grid ESO to run the Wind Advisory Group for Balancing Services, which will ensure the contribution that wind generation can make to balancing and ancillary services is considered as these services are developed. We would like to see the ESO continue to engage with RenewableUK and its members on issues such as the Power Available signal accuracy – this could improve the participation of carbon free resources like onshore and offshore wind in the ESO service markets.

We are concerned that the impacts of moving towards a different renumeration process on ESO's human resource and the quality of stakeholder engagement were not discussed as part of the ESO Specific Annex. The comprehensive framework should continue to support increased stakeholder engagement rather than undermine it.

The incentive framework put in place as part of the legal separation rightly recognises the unique role of the ESO. Ultimately, both the funding and incentives of the framework need to be designed coherently reflective of the asset-light nature of the business. We note that ESO internal operating costs are negligible in comparison to the benefits of the services provided to stakeholders and consumers. Applying the RAV-based funding model on a similar basis as it is applied across other RIIO regulated sectors when the ESO's value is in its human capital and operations, rather than capital assets, will limit these benefits.

Similarly, the all passed-through 'fast money' model will introduce a significant change in the current process, distorting the way costs of large capital investments are spread out over time. This could increase the level of risk passed on current consumers, through the fast recovery of expenditure. It will not be cost-reflective as the benefits of complex operational change projects are likely to be borne by future network users over the lifetime of the asset. Both current and future consumers benefit from investments made today and in some cases the costs of upgrading ESO systems could be quite substantial. As a principle, we believe focus should be placed on efficient development of balancing markets rather than a 'fast money' collection of revenue in order to make future investment decisions.

We recognise that the funding model is built on the principle that returns should be based on risk. Ultimately, the renumeration framework should be flexible enough to encourage the ESO to take on additional risks. It is our view that in in some cases the ESO is best placed to hold risk on behalf of network users rather than placing this risk entirely onto the connecting customer. This is why the framework should be adaptable to changes where services could be added with specific margins applied. To this end, we would be supportive of the ESO's Layered Proposal which will allow for profit margin to be applied, and encourage the ESO to be much more service-driven and innovative.

Due to the volume of current consultations, unfortunately we are not able to provide a full response to this consultation. In the meantime, should you have any questions on the above response, please do not hesitate to get in touch.

Yours Sincerely

Yonna Vitanova
Policy Analyst
Email: Yonna.Vitanova@RenewableUK.com
Tel: 020 7901 3000