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18 June 2019

Dear Victoria

Thank you for the opportunity to respond to this RII0-ED1 Innovation Rollout Mechanism Submission. E.ON has some concerns with one aspect of this submission and therefore this response summarises the arguments around this issue rather than going through each question individually.

E.ON is concerned that whilst Electricity North West's (ENW) proposed rollout does suggest a net financial benefit for customers, it will also reduce competition in nascent LV flexibility markets. With the proposed rollout of ENW's Conservation Voltage Reduction (CVR) project, customers will pay for the ~£15m capital expense of the project over the next three years. Whilst it is not explicitly stated in the submission, CVR appears to incur little or no operational costs and as such will be able to bid into any LV flexibility market at zero cost. Any non-DNO alternative solution will not be able to compete, even if it is lower overall cost (or lower carbon emissions) as it will not be able to recoup its capital layout through innovation funding. Therefore, alternative flexibility solutions will have to wait until demand for flexibility outweighs the additional capacity that CVR is able to offer. This could delay the uptake of LV flexibility markets by several years.

E.ON believes a more level playing field can be achieved by requiring ENW to pay for the capital expenditure for CVR itself (rather than receiving funding through the IRM), which can then be recouped through bidding CVR into LV flexibility markets run by an independent DSO. This will also ensure that CVR is only installed into areas where flexibility is required. By winning a flexibility tender with CVR, ENW can deliver on its flexibility commitment<sup>1</sup> (to open up requirements for building significant new electricity network infrastructure to include smart flexibility service markets) and ensure customers get the best value for money in

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<sup>1</sup> <http://www.energynetworks.org/news/press-releases/2018/december/britain%E2%80%99s-local-electricity-network-operators-launch-ena-flexibility-commitment.html>

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the long term as well as recovering its capital outlay much as any non-DNO solution.

It maybe argued that the speed with which the market could provide LV flexibility is still a long way off, but by requiring ENW to pay for the capital upfront costs and recoup these through a competitive tendering process, it ensures that all potential solutions have been investigated and given a fair chance to compete against CVR.