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The Office of Gas and Electricity Markets
10 South Colonnade
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Date: 11 October 2019

Dear Ofgem

Re: South Holland District Council response to Ofgem's 'Open Letter Consultation on approach to setting the next electricity price control (RIIO-ED2)'

I am writing to set out South Holland District Council's response to the above consultation.

In response to the following questions:-

Question 1 – Do you have views on the proposed objective for RIIO-ED2?

Response:-

Whilst we understand the desire to keep bills as low as possible, the current restrictions on DNOs forward funding infrastructure to support future growth need to be reviewed. We would request that the proposed objective for RIIO-ED2 needs to better acknowledge the role which DNOs should be playing in supporting future capacity requirements.

Question 6 - How do we ensure that network companies are best placed to undertake strategic investment and manage the associated risk? How should the risks of these investments be managed?

Response:-

We suggest that DNOs should be mandated to take a proactive approach in discussing future power demand with Local Authorities, all of whom have a statutory duty to plan for sustainable development in their districts through the Local Plan process. This has a direct connection to future power requirements. We would suggest that this would be a significant aid to DNO's planning for strategic investment and in managing associated risk.

Question 7 – What, if any, changes to the framework are required to support strategic investment?

Response:-

As the consultation states, strategic investment can be an effective tool to ensure the network meets the needs of both existing and future consumers. We would suggest that changes to the framework are required to better meet the needs of future consumers. In many parts of the UK, land investment conditions are such that developers are unable to forward fund power infrastructure needed to support housing and employment growth.
Our local DNO takes the view that they are legally unable to fund infrastructure for future need. The result is that lack of power infrastructure has become a major barrier to much needed land development coming forward.

Government has recognised this to be an issue and funding, such as from Homes England, is being made available to help finance power upgrade schemes, however this has no direct involvement from the DNO as a strategic partner and is inherently slow and inefficient. We would suggest that Ofgem needs to adopt a similar stance to Ofwat who now allow water companies to forward fund schemes to support future growth. This has transformed the water and sewerage landscape in a very positive way. We would urge Ofgem to take a similar policy stance.

Question 8 - How should we hold the companies to account for the delivery of strategic investment, and the outcomes that they are expected to deliver?

Response:-

DNOs should have targets for the development of additional power delivery capability to support growth in the UK. The Government is setting great store in the new Industrial Strategy which it wants to drive forward the UK's economy and raise living standards. We would suggest that DNOs should be mandated to play a much greater role in this strategy, rather than being handicapped through a primary goal of lower consumer bills. Bill levels should be only one component in how value for money is measured.

Question 20 - We welcome views on whether these enhanced engagement arrangements are appropriate for RIIO-ED2.

Response:-

In order for DNOs to show that they have properly reflected the requirements of local stakeholders, we would suggest that engagement with Local Authorities needs to be formalised and strengthened. Whilst Local Authority workshops take place occasionally, there is no formality in collecting evidence from LAs and no linkage to the LA Local Plan process.

Question 35 - We welcome views on our approach to highly anticipatory investment projects. We are interested to hear whether stakeholders would suggest additional processes or regimes for facilitating such investments that support the energy system transition whilst protecting consumers from potentially inefficient investments.

Response:-

We agree that it is no easy to predict future power investment requirements due to a range of factors. However we would suggest that there is currently too much emphasis on being able to maintain service of current levels of demand and too little attention given to planning for future demand. Our suggestion that DNOs should be mandated to consult with Local Authorities, through the Local Plan process, would help assure that the risk of poor return from highly anticipatory investment projects can be much reduced. It is in no one's interest to have significant additional capacity sitting unused but again we want to emphasise that lack of power capacity is now a substantial barrier to housing and employment growth. This is needs to be addressed in the current review.

Yours Sincerely

CA Marshall

Christine Marshall
Executive Director Commercialisation