

RIIO2 team
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Ofgem

15th October 2019
Our ref: RIIO-ED2

RIIO-ED2 framework consultation: EA Technology's Response

Dear RIIO2 team,

EA Technology welcomes the opportunity to respond to Ofgem's framework consultation on RIIO-ED2. We are an employee-owned SME with a long history of working with the electricity distribution industry in Great Britain and around the world; making networks fit for the future.

Our response to the consultation, below, is structured according to the 48 questions posed in your letter of 6th August 2019.

Proposed objectives for RIIO-ED2

1. Do you have any views on the proposed objective for RIIO-ED2?

EA Technology supports the objectives set out by Ofgem for RIIO-ED2.

In particular, we welcome the prominence being given to the decarbonisation agenda, as this represents one of the biggest challenges facing not only our industry, but also society. Whilst it is largely those technologies connecting to the network that will drive the transition (e.g. LCT¹), they need to be accommodated by a suitably robust and fit-for-purpose power grid. It will be vital that electricity distribution companies be given the mandate and the tools within the next regulatory settlement to help them on the route to Net Zero. Done correctly, this will set the pathway to a low carbon economy, supporting both national / local governmental policy objectives, whilst also unlocking consumer choice.

Britain is not a homogenous country; regional variations, devolved administrations and even some cities, have driven policies in areas which are more aggressive than the national picture. It is therefore critical that regulation for the energy networks is flexed to address the most progressive area. Done correctly, the transition to low carbon will benefit Britain, while creating an opportunity for significant export.

¹Low Carbon Technologies, e.g. PV, heat pumps, electric plug in vehicles, battery storage, etc

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It goes without saying that electricity networks provide an intrinsic value to the economy in powering our nation. The nature in which electricity distribution networks are regulated, therefore has profound impact on the UK. Whilst needing to be economic and efficient, we note that after almost 30 years of regulation, the GB electricity market has become highly complex and technical. This makes it somewhat impenetrable for those currently outside of the sector. We would encourage simplification wherever possible to the regulatory framework, to further encourage new entrants into this space. This will add value to the sector and to the UK as a whole.

Strategic approach to RIIO-ED2

How to set price controls that support decarbonisation goals

2. To what extent should we take into account outcomes linked to decarbonisation targets, and what outcomes might this involve?

We welcome the idea to link outcomes to decarbonisation targets as this delivers the message that there is a coordinated policy agenda, in which DNOs can play a key part. Linking this directly to outcomes is a challenge and something of a departure from the traditional model that has been used.

We see increasing appetite of local governments wanting to work with DNOs collaboratively to develop their decarbonisation agenda. Progressing this could allow regional or local targets to be set to provide sufficient network capacity to accommodate x electric vehicles, y heat pumps etc, by z date. Set correctly, this could then be measured, not just in terms of the actual connections of such technologies, but in the capacity provided at certain critical areas.

To do this effectively, it is necessary to look at a time horizon beyond a single regulatory period. Whilst the Net Zero target is currently set at 2050, there is increasing political will to move this forward to 2040, 2035, or even earlier. Whilst the pathways to 2050 are somewhat unknown, the next decade or so is clearer, suggesting a timescale to 2035. This would allow investment decisions to be taken based on the likely needs of stakeholders at this time. These needs would then have the ability to be flexed if climate targets were to change (for example, be brought forward).

3. Are there activities that DNOs are best placed to carry out in order to achieve these outcomes? What are the alternatives? Why would it be appropriate for energy consumers to fund these activities?

The activities that DNOs are best placed to understand is the network capacity at various points in the network and the necessary investment to permit increased electrification of heat and transport. Determining and publishing these levels will be key to ensuring sufficient capacity is available in the system to enable strategic stakeholders to meet their aims and contribute to the decarbonisation agenda.

DNOs should have the ability to signal to the market, therefore, where the most cost-effective connections can be made for infrastructure such as electric vehicle charging. However, this will not necessarily indicate where the greatest benefit to customers will be found.

The alternative to funding this through traditional DNO activity (via bill payers) would surely be some form of decarbonisation levy that would need to be raised either through national taxation, or through local taxes put in place by the councils with whom the DNOs have engaged regarding their plans to decarbonise. It is our opinion that it is more appropriate for this to be funded by bill-

payers (justified by the DNO) as it allows for regional variation in network needs, which are linked to population density, demographics, and legacy network assets. Ultimately, this is likely to be fairer to the British citizen.

4. How should we assess DNO funding requirements and measure DNO performance in these areas?

As mentioned in our response to 2, the key to assessing funding requirements is to take a longer-term view; focusing on a mid-point between now and the current Net Zero target, such as 2035. In this way investment decisions are being taken not for the short-term benefit or purely for the achievement of regulatory targets, but instead as part of the roadmap towards readiness for full decarbonisation.

In this context it is important to remember that some networks may well require large scale reinforcement, with this being the lowest cost solution. Smarter approaches to management of load and generation at a local level will be significant contributors to the overall picture, but do not completely mitigate the need to develop the network infrastructure to meet the scale of the decarbonisation targets. Some degree of regional or local variation is therefore inevitable.

5. How should we incentivise DNO performance when the achievement of outcomes could be dependent on the actions of others?

Rather than there being an incentive, there could be an allowance to ensure that sufficient capacity is provided in the areas requested by the strategic stakeholders. An output measure, such as all parts of the UK being able to accommodate a 50% switch to electrified transport by 2035, means that appropriate behaviours could be driven across all DNOs, even though the means to achieve this and the extent to which investment is necessary, would differ.

DNOs could spend this allowance to facilitate such capacity. They would be subject to a suitable ex-post efficiency test, but would be not incentivised to do so quickly, nor would they be able to keep any of the allowance that is underspent.

In much the same way as load indices and health indices are used presently to measure risk profile, a “LCT readiness-index” could be introduced to ensure that networks are appropriately sized and structured to permit the connection of suitable LCTs and this would allow an overall measure of the progress the networks have been making towards enabling low carbon. This can be determined through software tools that calculate the projected voltage drop and loading levels for the target penetrations of LCT.

How to set price controls that support strategic investment

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?

The DNOs have the greatest visibility of network performance and understanding of the stresses that will be introduced by new technology adoption. By having the minimum threshold of LCT readiness, it ensures that networks act as a critical enabler to the successful decarbonisation of the economy. The risks can be managed by setting the appropriate level for, say 2035, understanding that this practical limit can be adjusted depending on how circumstances, or policy, changes over time.

These plans will need to be structured to take into account the potential differences between central government policy and behaviour (e.g. widescale electrification of transport) as against more regional objectives linked to air quality, planning policy, heat network uptake etc, which may vary from one city, or Local Enterprise Partnership (LEP), to another.

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

As articulated above, setting an outputs measure regarding ensuring that DNOs make the networks sufficiently 'LCT ready' such that they are able to cater for the challenges associated with Net Zero should be a focus. This would incorporate local energy master-planning via engagement with local government and other strategic stakeholders.

The framework would need to be adjusted to be sufficiently flexible for DNOs to adopt these approaches which would vary by different geographical areas depending on the nature and magnitude of the challenge faced.

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

As we have stated, the adoption of a LCT readiness index (or similar) would allow Ofgem to assess DNO performance in becoming a key strategic enabler for the decarbonised economy and to ensure that investments were being appropriately targeted to achieve these outcomes.

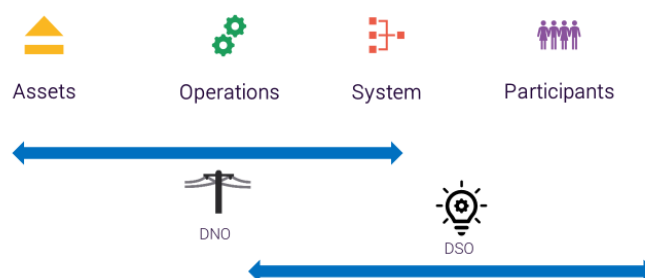
How to set price controls for DSO functions

9. Is there a need to separate out the revenues and outputs for 'traditional' DNO functions from DSO functions? How could this be achieved?

Yes, in the longer term. However, as these roles are very much at the 'emergent' phase during the ED2 timescale, we believe it to be inappropriate to attempt to fully define the model now. There needs to be greater work to show the level of interaction between DNO-DSO-other actors to ensure that any such framework delivers value to customers.

We see there being a significant amount of overlap between DNO and DSO functions throughout the ED2 timescale as illustrated below.

Network visibility: from DNO to DSO



The way in which such separation and measures could be put in place will be dependent on learning and we would encourage the continued collaboration through Open Networks and related

endeavours. Key is encouraging DNOs and others to share learnings and ideas that can be trialled, and quantified in terms of the benefits they deliver to all customers, not just those who actively participate in the distribution system of the future.

10. In the event of the DSO function being delivered by a separate party, how might we determine the revenues for DSO activities? What type of funding model would be appropriate to set DSO revenues? In this event, would changes also be required to DNO revenues and outputs?

This is a complex area in which EA Technology has been actively involved recently with a number of network operators in different parts of the world. Our experience has shown that there is not a single one-size-fits-all approach that can be adopted, and the solution is instead heavily dependent on the objectives that you are seeking to achieve, the time horizon over which you are looking and the maturity of the market. For example, our work in Australia with Open Energy Networks has shown that the speed of adoption of technologies (which is very high for residential PV and storage) is a critical driver for selection of the appropriate DSO market model.

Consequently, at this point in time, we feel it is too early to define the requirements in this space and it is important to draw learnings from projects currently live in this arena, such as Open Networks², TRANSITION³ and FUSION⁴.

11. Where a DNO is undertaking a DSO function, what type of outputs or outcomes are necessary to measure how efficiently they are performing this function? Over what time period could these be measured?

If a DNO is taking on the role of the DSO, it will be vital to measure the effectiveness with which it is permitting the connection of LCTs. In this way, the LCT readiness index mentioned previously allows for an output measure to show how the DNO/DSO is adequately using a blend of network augmentation and market-sourced flexibility to achieve the required LCT readiness level. The time period for this to be measured should be aligned with the objective to achieve Net Zero.

As mentioned above, a standard timeline could be set to ensure that all DNOs/DSOs are focusing on achieving a defined LCT readiness index level by 2035 (as a mid-point to Net Zero). It is then possible to extrapolate from that the level of LCT readiness that should be achieved by the end of RIIO-ED2 to demonstrate that progress is on track - a similar approach to the setting of Carbon Budgets by HM Government.

How to set price controls that drive innovation and competition

12. In what ways could the existing arrangements drive more innovation and competition?

The price control process could be improved by defining a long-term objective, such as accommodating Net Zero, using the Best Available Technique (taking into account both short and long-term costs and risks). This would counter the current behaviour whereby decisions are taken to satisfy the demands of a 5- or 8-year price control rather than the overarching needs of the consumer and the wider economy.

In order to drive innovation and incentivise the right behaviour, it is necessary to ensure that DNOs have the ability to recoup value over an appropriate period of time and avoid any unintended consequences that occur as we exit one price control and enter another.

² <http://www.energynetworks.org/electricity/futures/open-networks-project/>

³ <https://ssen-transition.com/>

⁴ <https://www.spenergynetworks.co.uk/pages/fusion.aspx>

As described in earlier question responses, when considering 'LCT readiness' index, each DNO will have appropriate targets to achieve as milestones throughout ED2 and beyond. There will be an associated allowance to achieve this target, which can be benchmarked across DNOs and will be based upon current best available technology. If these targets can be hit with lower totex investment than that associated with the envisaged least-cost option, then the DNO should be rewarded for successfully delivering these milestones at lower cost.

It is vital that this should not stop at trial activity, but instead incentivise the pull-through to business-as-usual with a focus on widescale, replicable deployments that can make a material difference to consumers and Net Zero. Therefore for example, if a DNO can demonstrate that:

- it is deploying a new solution at scale (e.g. 3% of network coverage or more)
- the new solution can be replicated by one or more other DNOs meaning that it has material impact for GB's transition towards Net Zero

the innovative DNO would be allowed to receive a suitable benefit for a defined period of, say, 10 years. Clearly it is intentional that this runs over more than one price control period.

How to set price controls for a smart, flexible energy system

13. To what extent should we set (and incentivise performance against) baseline totex allowances for activities where flexible solutions could be provided?

It is appropriate to ensure that for any 'traditional' totex-based investment solution, alternative, non-network options have also been explored.

The inclusion of long-term risk reduction in NARM output measures will certainly help to address some of the short-termism inherent in a pure totex incentive and we look forward to seeing how this development will drive longer-term thinking for DNOs.

There should, therefore, be a requirement on DNOs to explore such approaches, and some sort of allowance where they have managed to deliver the benefits of the traditional solution via leveraging a flexible approach. This could be through some sort of cost share meaning that a proportion of what would have been spent on the 'traditional' solution is returned to the DNO.

Issues regarding any sort of arrangement such as this would revolve around the future role of the DSO and the long-term viability of having such a model where the DNO and DSO roles may be fulfilled by different entities. Aligning interests and objectives of these two organisations through a holistic framework that incentivises the appropriate behaviours of each, would be difficult under any such sharing mechanism similar to that outlined above.

14. Should we instead set allowances based on the costs revealed through the flexibility tendering process? How might this work?

Allowances should not instead be set on this basis, but should be determined as per our previous responses based on the Best Available Technique, with a view to the longer term. The above-mentioned mechanism to ensure DNOs are incentivised to explore innovative alternatives will drive appropriate behaviour.

How to set price controls in a big data environment

15. To what degree should DNOs modernise their handling practices to adhere to data best practice, and therefore (among other things) provide available, transparent, and interoperable data about their networks? What measures will be needed to ensure data remains secure?

EA Technology supports more open, transparent and interoperable data. It is important to ensure that any data made available must also be done in a format that is 'useful' to the recipient and is therefore fit for purpose, recognising that the recipients can be many and varied with a different degree of skills, experience and knowledge pertaining to the distribution network.

16. How should we structure RIIO-ED2 to encourage metadata to be made available, and for data to be presumed open? How should we measure DNO performance in this area, and on what basis should funding be set to deliver relevant outcomes?

A combination of further monitoring and modelling is important to meet the needs of the varied stakeholders. Having increased monitoring allows DNOs to operate closer to the edge of the operating envelope of the network. However, the closer to real-time the data is, the more costly it is to gather and publish; but the more valuable it is to certain market participants.

Therefore, it is EA Technology's view that lower latency data, e.g. one week in arrears, should be available to the public, but it would be appropriate to charge those participants who are looking to utilise faster latency data for their financial gain. The funding from this latter group should be used to make data more widely available to society. This would be in alignment with the recommendations of the Energy Data Task Force, where data that would benefit the wider community is presumed to be open.

17. Do you agree with the themes we plan to include in our guidance on data best practice?

Yes, EA Technology agrees with the themes.

RIIO-ED2 Framework Consultation

Length of the price control

18. We welcome views on our proposed position of a five-year price control for RIIO-ED2.

As above, the 5-year price control must be in the longer-term policy context of enabling Net Zero.

With this caveat, EA Technology agrees that a 5-year price control strikes the best balance between giving certainty for investors over this time and accommodating the high degree of uncertainty that exists across the sector with evolving and emerging roles.

19. Are there any elements of RIIO-ED2 price control that we should consider setting over a longer or shorter period? Please give reasons.

Again, against the backdrop of enabling the transition to Net Zero, it is probably impractical to have any elements of the ED2 portfolio managed over different timescales.

EA Technology is of the opinion that by the end of ED2 there will be far greater clarity regarding the market framework that will be in place for DSO and the identities of the key organisations and the roles that they will play in its delivery. Rather than try to regulate this over a certain time

horizon, it is probably appropriate to allow this to be developed in an organic, but coordinated, manner through whole-industry initiatives which will then allow appropriate decisions to be made in time for the ED3 determination.

Giving consumers a stronger voice

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

Yes, we feel these enhanced arrangements are entirely appropriate for ED2; especially given the need to more critically understand the needs of local strategic stakeholders as part of Local Area Energy Planning which will be critical to the successful delivery of decarbonisation targets.

Meeting the needs of consumers and network users

21. We welcome views on whether the proposed output categories and incentive arrangements are appropriate for RIIO-ED2.

EA Technology notes the three key output categories set out and acknowledges that they are broad and encompass the majority of activities. We would say that at this point there is probably insufficient detail regarding the specific output measures and incentive mechanisms that will underpin these, and we look forward to receiving further details on such.

We would also note that the three areas as presented should not indicate an order of priority, as all are of equal importance in delivering the above stated objectives.

22. We are interested to hear if there are new elements of the services DNOs will need to deliver that should be included in the current output categories. Alternatively, we welcome views on whether these should be captured by a new output category. For these new elements, we are interested to hear how delivery of these services should be valued and measured.

As previously stated, we have set out some views regarding methods for measuring and rewarding such delivery. We do not have any further views on this subject at this stage.

23. We welcome thoughts on how to ensure that we continue to protect the interests of vulnerable consumers, particularly in light of the energy system transition.

It is imperative that any new initiatives and incentives that may be designed to facilitate greater connection of LCTs, and greater engagement with those wishing to offer flexibility services (even at the domestic level) do not lose sight of the fact that any such activities must lower costs for all customers, not just those who are actively engaged in the marketplace. Vulnerable and fuel-poor customers are highly unlikely to be active participants and they must not be disadvantaged by either incentive, or market, arrangements.

Maintaining a safe and resilient network

24. We welcome views on how DNOs should continue to ensure their networks are resilient, particularly in the context of the new or changing way assets are used.

EA Technology welcomes the continuation of existing drivers to improve network resilience. The mechanism that is currently in existence in GB has been shown to work and deliver consumer resilience benefits at reasonable cost.

However, we note that the current framework does not reflect the greater importance of resilience in some areas over others. For example, the economic value of network resilience in commercial centres is considerably greater than that in rural areas, as seen in the regulatory framework that has been established in Australia.

25. We are interested to hear stakeholder views on how DNOs should ensure their networks are resilient to physical and/or virtual threats, as well as being able to withstand the effects of adverse weather and the impacts of climate change.

It is our view that networks should be designed to sufficient standards to cater for physical and cyber threats, particularly in the context of Net Zero where electricity networks will be essential for providing heat to customers' homes and their transport needs.

26. We would also like to hear how stakeholders believe climate change mitigation and adaptation may affect network maintenance and development in the short, medium, and long term.

The move to Net Zero will mitigate climate change however it is generally accepted that this is now sufficiently advanced that adaptation to new weather conditions is essential. With the acceptance of climate change effects, it is increasingly important for DNOs to design, maintain and operate their networks to cater for the greater range of extreme weather events that are increasingly likely going forward.

This needs to be considered to ensure fitness for purpose of the networks beyond their original design requirements.

27. We would like to hear views on how we ensure DNOs remain resilient to the challenges presented by an ageing and changing workforce.

As an employer in this sector, we recognise that the skills shortage is real and parallels in other countries show that the cost of employment increases with scarcity. Furthermore, the changing energy marketplace is bringing about the needs for new skills in areas not previously required by the DNO. This brings associated challenges in the areas of recruitment, development and retention.

Delivering an environmentally sustainable network

28. We welcome views on how DNOs should work to minimise the impact of what they do on the environment and facilitate the transition to a low carbon energy system. We are particularly interested in the implications of the government's updated target of net-zero emissions by 2050.

As stated in earlier responses, EA Technology is firmly of the opinion that greater collaboration between the DNOs and key local strategic stakeholders will aid in the transition to Net Zero. Having a more in-depth understanding of the aims of how local councils are prioritising their decarbonisation will enable DNOs to play an active part in ensuring that sufficient infrastructure and capacity is available to ensure local stakeholders can fulfil their needs.

29. We also welcome views on what this may mean for the type of activities networks undertake, how these may be funded, as well as the outputs and/or incentives they should be exposed to.

As previously discussed, plans should be developed in conjunction with these stakeholders, meaning that regulatory allowances are in place to facilitate the delivery of these local strategic

plans. These should be done on a 'use-it-or-lose-it' basis ensuring that the DNO works with the stakeholders to deliver the benefits to the local area in terms of helping facilitate decarbonisation.

30. Finally, we are keen to understand how DNOs' performance should be measured, and how we should assess the value that consumers place on the provision of these services and activities.

The successful delivery of such initiatives should be measured on the basis of the DNOs spending this allowance in line with the plans set out with the local stakeholders, and also through the potential measures of 'LCT readiness indices' or similar to confirm how the actions undertaken by the DNO have furthered the decarbonisation agenda and performance.

Enabling whole system solutions

31. We welcome views on how RIIO-ED2 can best capture the benefit of whole systems solutions. We are also interested in views on how these benefits should be measured.

We recognise the importance of reaching out to other stakeholders in the energy sector beyond the DNO as part of whole system planning. In our work on projects such as My Electric Avenue⁵ and Electric Nation⁶, we have observed the extent to which DNOs will need to interact with smart charging solution providers and users of electric vehicles and will need to work to find a solution that is both grid-sympathetic and consumer-friendly. This is further complicated when considering multi-vector systems with gas, heat and hydrogen networks which may need to be considered at a local level as part of an integrated energy system.

We have done some work on this as part of a UKRI project (E-Port Smart Energy Masterplan⁷), but this is still an emerging area and more work is required before it will be possible to fully articulate measurands for a price control.

32. We further welcome stakeholders' opinions on whether the electricity distribution sector's approach to whole systems should be different from the other sectors and, if so, why.

As stated above, there will be a significant need to work at a local level as part of Local Area Energy Planning to meet the energy needs of communities at lowest cost. This will need to go hand-in-hand with national policy decision-making.

However, the bespoke nature of the energy networks in terms of their legacy design, constraints and the needs of local customers, means that considerable local engagement will be critical to make whole energy systems a reality, particularly in the initial periods.

It is likely that there will be a number of such projects before common themes can be drawn out and form part of a structured national policy agenda.

Managing uncertainty

33. We welcome views on how we should manage the uncertainty associated with forecasting allowances, and whether there are any mechanisms we could or should consider in helping to manage this uncertainty.

⁵ www.myelectricavenue.info

⁶ www.electriconation.org.uk

⁷ <http://www.cheshireenergyhub.co.uk/#e-port-energy-study>

EA Technology does not have any views on this question at this time other than those stated earlier in this consultation response.

34. We seek views on the use of indexation, particularly on any adjustments for labour and construction cost inflation.

We do not have any views on this 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.

We do not have any views on this question.

36. We welcome views on the type of issues that should be considered through an inter-institutional group.

We do not have any views on this question.

37. We invite stakeholders to advise what type of expenditure they believe should be subject to alternative arrangements for sharing risk, and what these arrangements may look like.

We do not have any views on this question.

Driving efficiency through innovation and competition

38. We welcome views on the proposed innovation stimulus. We are interested to hear views on the types of projects that should be funded through either the NIA funding or a new funding pot.

EA Technology broadly agrees with the proposal as set out by Ofgem.

We feel strongly that the focus for innovation projects should be those that have a high degree of replicability for other DNOs, meaning that they can fast-follow the innovative DNO and return value to consumers nationwide as quickly as possible through adoption of best practice into business as usual. Furthermore, the projects for prioritisation should be those that tie in with broader, national policy objectives concerning the move to Net Zero. Noting that this alignment will be beneficial for the DNO sector, those connecting and using the network, and the wider economy.

We firmly believe that the point at which competition is introduced within the innovation cycle is key. At present, there are highly competitive elements at the project proposal stage, leading to a small number of flagship projects going forward without duplication of effort. While we understand this approach, we would respectfully suggest that allowing a greater degree of duplication within innovation projects, would create more participants in the market at an early stage. In turn, this will lead to much stronger competition during the critical commercialisation phase of successful innovations, resulting in better value for customers more quickly through the evolution of a more mature market.

39. How can the benefits of the innovation stimulus be maximised by supporting schemes proposed by non-network parties?

As stated above, by allowing more duplication of innovative effort with a range of third parties and through other funding mechanisms, there will be much greater opportunity for the successful commercialisation of competitive products and services, which will deliver benefits to networks and customers.

In other words, highly competitive proposal stage with expert judgement leads to a possibly flawed ex-ante recognition of possible best practice. In contrast, more duplication of innovative effort would result in greater competition at commercialisation stage hence better, ex-post, market judgement.

40. We also welcome views on our proposals for the different competition models in RIIO-ED2, and what, if any, criteria should be set out for the use of early or late stage competition models.

It is EA Technology's view that as we decarbonise the UK economy it is vital that we seek innovative solutions that add value to 'UK plc' rather than focusing on benefitting particular regions or areas of the country. This will allow greater focus on the commercialisation of innovations and the export value that they could create, as we recommend in our response to question 38.

In order to facilitate this, greater alignment with other bodies that offer innovation funding (such as UKRI, ESC etc) would be beneficial and would promote the competitiveness of the innovations and the value that they provide.

Finally, we would note that any innovation competition models should be geared towards deployment of the innovations into business as usual rather than trial outcomes and we outlined our thoughts around potential mechanisms for this in our response to question 12.

41. We also seek input from stakeholders on how native competition obligations and best practices can be used to ensure the best outcomes for consumers and to drive changes in the role of the networks in a transforming energy system.

We agree that native competition should be sufficient, provided that this is within a framework that ensures that outcomes are geared towards facilitating the transition to Net Zero.

Forecasting and scenarios

42. We welcome views on our approach to planning, forecasting and scenarios for RIIO-ED2. In particular, do stakeholders have other suggestions as to how we can best manage forecasting risk for consumers?

As previously stated, it is essential that future planning be focused on time horizons well beyond the end of the price control. It is our view that we should begin by focusing on the outcomes to achieve Net Zero by 2050 and work back from here to consider milestones and allow for flexibility of targets are brought forward by national/local governments.

In this way, we feel that by setting out pathways for DNOs to facilitate decarbonisation through measures such as a LCT readiness index will enable key milestone targets to be set such as a mid-point target of 2035 levels of readiness. This can then be extrapolated back to form appropriate targets for the ED2 time horizon, which will be aligned and geared towards the longer-term objectives of utilising the distribution networks as key enablers of the low carbon economy.

Business plan and totex incentives

43. We welcome views on our proposal to remove the early settlement process for RIIO-ED2, instead focusing on alternative mechanisms to receive high-quality and ambitious business plans.

EA Technology agrees with this proposal.

44. We also welcome views on our proposals to use the Business Plan Incentive and the confidence-dependent incentive rate arrangements for RIIO-ED2. In line with this, we are interested to hear stakeholder views on the range that should be used for both of these.

EA Technology supports this incentive and is neutral on the issue of how it should be implemented and the details of its design.

Fair returns and financeability

45. We welcome stakeholder views on our proposals to introduce measures to enable network companies to finance their activities whilst ensuring they receive a fair return.

We feel that it is critical that networks are appropriately financed such that they represent an attractive proposition for external investors to seek to come to the UK and enter this market.

46. We are interested to hear from stakeholders on how they believe we should set allowances for the cost of debt, particularly around the method of recalibrating the index.

We do not have any views on this question.

47. We also welcome views on our proposed approach to setting allowances for the cost of equity, as well as our proposal to move away from RPI.

We do not have any views on this question.

48. Finally, we would like to hear stakeholders' views on our proposed introduction of a sculpted sharing factor' in instances of high out- or under-performance, or whether an alternative mechanism could be more effective.

EA Technology's view on this is that whatever the mechanism adopted, it is important to consider how it helps simplify the price control and improve the optics from a consumer perspective in terms of value for money being delivered by the DNOs. Any measures that can be introduced that lead to greater simplification and/or greater understanding of the role of networks and how they are incentivised would be welcomed.



We hope you find our response to this consultation useful. We believe that RIIO-ED2 has the potential to drive down costs and enable the transformation of the energy system. We would therefore be delighted to discuss any of these points in more detail (if required) and look forward to seeing the outcome of the consultation process.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'DAR', with a long horizontal stroke extending to the right.

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