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To: RIIO2
Subject: RIIO-2 consultation

To: RIIO Team

We would like to submit the following views with respect to OFGEM's, "RIIO-2 Draft Determinations for Transmission, Gas Distribution and Electricity System Operator" consultation as published here:

<https://www.ofgem.gov.uk/publications-and-updates/riio-2-draft-determinations-transmission-gas-distribution-and-electricity-system-operator> and that closes today.

This consultation is an extremely technical one that affects us indirectly, but we felt it important to register our high level observations and concerns because we believe that the proposed RIIO-2 approach risks having a negative indirect effect on the successful deployment of renewable energy within the UK.

Our general observations are as follows:

- Technological progress and costs in photovoltaics (PVs) and energy storage systems (ESS) have fallen significantly faster than regulations have been able to adapt. This is expected to continue throughout this determination period so it is more fundamental than ever before for OFGEM to design a system that is responsive in commercial timescales and more technology agnostic than has been the case before. We are not persuaded that the RIIO-2 approach proposed will be sufficiently adaptive and responsive, and are therefore concerned that its net effect will be to stymie and delay renewable energy investment in the UK.
- Regulatory processes like the reopeners and innovation funds proposed by OFGEM are very low, cumbersome and bureaucratic to access. The energy transition requires a significantly faster pace. OFGEM should design a system that can respond in commercial timescales (e.g. weeks or months) rather than historical timescales (e.g. years).
- We are very concerned that "value for money" is OFGEM doublespeak for "lowest short-term cost to the consumer" rather than "best long-term value to the nation". Given the significant structural changes needed to transition to a low carbon economy and the constrained state of the network in parts of the country, we expect OFGEM to focus more strongly on ensuring the investments evolve the network's capacity and flexibility to be capable of operating in a radically different flow environment than has been the case before. Curtailing investments in general will not represent "value for money" to the nation.
- We are a bit startled that in the Impact Assessment (https://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_impact_assessment.pdf) in table 28 and figures 1 and 2, the net effect on consumer bills is calculated as essentially negligible, and in table 34 it would seem that the base case being proposed by OFGEM will have a negative net impact on the nation. Given the very strategic changes that need to be made to the UK transmission system, the proposed base case does not seem to be in the national interest.
- We perceive that historical OFGEM incentives have failed to fully catalyse innovation because the penalties to operators if the innovation was not completely successful exceeded the possible benefits to the operators. OFGEM must more genuinely recognise that deploying innovation is not risk-free, and that OFGEM itself can significantly undermine successful innovation through the conditions it establishes under this determination. In our view OFGEM excessive bias for "lowest cost" (through the associated penalties to operators) has historically, and if not amended in this determination, will continue to stifle innovation by punishing innovators if they cannot *guarantee* a successful outcome when they deploy something new.

- OFGEM's Decarbonisation Action Plan states the intention to make, “the network price control regulatory regime more adaptive to deliver the most effective transition at lowest cost” by making the RIIO-2 price control flexible enough to inject the necessary funding at the right time. However, the “Managing Uncertainty” mechanism proposed by OFGEM in RIIO-2 is strongly biased towards large projects and initiatives and will not be applicable to PV projects that might require reinforcements and/or upgrades in places that the operator did not envisage; this will stymie PV investments.
- The “Net Zero Re-opener” is woolly and at OFGEM’s sole discretion so does not afford investors and developers any clarity or predictability as to whether projects proposed in areas where reinforcement or upgrades are required will have access to the necessary investment. Requiring case-by-case evaluation by OFGEM will add significant and non-commercial delays especially to smaller developments that would require this support. We would urge OFGEM to include a mechanism suitable for individual projects to directly apply to OFGEM to access support within commercial timescales.
- While it might seem efficient to catalyse incessant competition at all levels in the market, we observe that the best renewable resources exist at specific locations, and may be concentrated in places where the network is already full. Rather than penalise the lastcomer, it would be in the national interest to instead design a system that directs reinforcement and investment in new capacity to those locations where the resource is most strategic.

Our answers to OFGEM’s specific questions are:

Q12. Do you agree with our proposed common approach for re-openers?

We do not feel that the proposed reopener approach will be swift enough or efficient. We also observe that projects seeking to connect at the distribution level that are then stymied by constraints at the transmission level will not be significant enough to trigger the reopener thus meaning that the reopener will not help resolve the existing transmission capacity challenges when encountered by real projects.

Q20. Do you agree with our overall approach to meeting Net Zero at lowest cost to consumers?

Specifically, do you agree with our approach to fund known and justified Net Zero investment needs in the baseline, and to use uncertainty mechanisms to provide funding in-period for Net Zero investment when the need becomes clearer?

We disagree with the proposed approach because we feel that BEIS and OFGEM should be focused on delivering the best value for the nation and not the cheapest price to consumers. The obsessive focus on cheapest price to the consumer can and has been manipulated politically, and is very short-termist. The UK has an extremely challenging target of transitioning to a low carbon economy. Referencing proven and economically viable technology available today, it is obvious that the path to net zero requires a very significant electrification of the economy. This means that the current electricity network, designed historically to transfer power from a small number of centralised power stations to the rest of the country will necessarily have to change as electricity flows and the role of the grid will be different in the future. This transition requires significant investment as new generation seeks to join the grid in places where it was not previously foreseen, demand increases in unexpected places, and the technologies bring new electrical dynamics and technologies to the grid. OFGEM’s focus on the cheapest price to the consumer in the RIIO-2 proposal seems entirely at odds with intelligently catalysing investment where it will be most strategic for the nation. We feel that OFGEM is shirking its responsibility by proposing a system where they can wait for investment decisions to become completely obvious on the pretence that they do not wish to “risk” customer’s having to pay “more” in the short term. Our view is that this approach will simply delay the transition to Net Zero. We also feel this approach introduces an unfair bias for larger projects that may be better resourced to present a slick justification than smaller projects with equal merit and that may be more socially acceptable. We observe that the RIIO-2 risk assessment presented by OFGEM predicts an

essentially negligible impact on customer bills whereas customers would expect the nation to invest wisely in infrastructure that will benefit them in the long term.

Q21. Do you think the package of cross sector and sector-specific UMs provides the appropriate balance to ensure there is sufficient flexibility and coverage to facilitate the potential need for additional Net Zero funding during RIIO-2?

No. We feel that the uncertainty mechanism proposed is biased towards the largest projects and will be out of reach to smaller projects that may be equally dependent on transmission upgrades or reinforcements. We do not have confidence in Ofgem's ability to react quickly, and the proposed approach creates too many possible barriers for smaller projects to successfully overcome to access the UM.

Q27. What are your thoughts on our proposals to strengthen the RIIO-2 NIA framework?

Now that the "first wave" of merchant PV projects have been deployed, the costs of connecting new large-scale PV generation are now almost always being affected by transmission capacity, fault levels, lack of connections or system complexity. PV projects now have to pay significant costs not just for distribution studies but also for transmission studies and reinforcements which double the grid access timescales and increase the pre-FID cost and risk for developers. The consequence in a subsidy-free world is to stifle investment and bias development towards the very largest projects. Reducing the TOTEX allowance and the Network Innovation Allowance is expected to worsen this situation for PVs. Furthermore, due to differences in development risk, merchant Energy Storage Systems can secure grid capacity much more cheaply than PVs and therefore are sterilising PV projects. It is critical for Ofgem to ensure that innovation and network code reform is vastly accelerated to mitigate this very serious adverse effect that is causing renewables to compete rather than cooperate with energy storage. The proposed modifications to the NIA would appear to exacerbate rather than improve this problem.

I hope these are helpful and constructive observations.

Yours faithfully
For and on behalf of Ennoviga Solar Ltd

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