

From: Mark Howitt <mhowitt@storelectric.com>
Sent: 14 July 2020 15:42
To: RIIO2
Subject: Response to RIIO-2 Draft Determinations
Attachments: A 21st century electricity system.pdf

Categories: DD Consultation Response to be logged

Dear Sir/Madam,

RIIO Framework

I had thought that re-setting an entire industry on a regular 5-year basis had died with Stalin and Mao Tse Tung, because it caused immense inefficiencies and disruption?

In conversation (they don't like to upset Ofgem and BEIS by putting it in writing), the industry is unanimous in decrying the 5-year reset of all company strategies and plans, which gives immense uncertainty just 6 months before the reset and a total inability (even at the beginning of each period) to plan for, construct and amortise longer-lived investments. Even at the start of the 5-year plan it makes contracts impossible for TSOs and DSOs to structure for assets that take a few years to build before starting delivery. The only people to support it were consumer groups who focus on the today's consumers at the expense of tomorrow's. Why else do you think that all major investment needs special 15+-year financial instruments such as CATOs, OFTOs, ROCs and CfDs? And, given that each of these has rules and exclusions, can you not see that each one is a market distortion?

If Ofgem think it's successful, ask yourselves why our electricity system was among the 2-3 cheapest and most up-to-date in Europe at privatisation but is now among the 2-3 most expensive and out-of-date / aged? Largely for 2 reasons: because of short-duration regulatory frameworks, and because those are fixed rather than rolling.

Let's bury Stalinism and Maoism.

Allowable Returns

Another sacrifice of tomorrow's consumer to benefit today's is the halving of returns. Why would any company wish to tie up capital in an industry that can only yield under 4% returns at best, subject to penalties and deductions? This will increase the cost of capital, which in turn will put up prices which counteract the consumers' alleged short-sighted benefits while failing to provide the investment.

A Better Way

It is possible, though, to develop a regulatory system that incentivises WITHOUT SUBSIDY or regulatory market distortion:

- A cheaper and more cost-effective grid in the medium and longer terms;
- Major capital investment;
- Renewals and upgrades;
- Favouring "green" investments"; and
- Introducing innovative solutions to the grid, even if capital intensive.

For this, please see the attached A 21st Century Electricity System.

Let's get away from the failed political experiment of mid-20th century Russia, China and North Korea.

Kind regards,
Mark

--

Mark Howitt
CTO and Co-Founding Director, Storelectric Ltd
www.storelectric.com
+44 7910 020 686
Skype: Storelectric.mah

[Subscribe to our newsletter](#)

Storelectric is developing Compressed Air Energy Storage in the UK, to store many gigawatt-hours' worth of electricity in order to make renewable energy more useful and profitable, costing ~1/3 the cost per GW and an incremental ~1/100 the cost per GWh of pumped hydro-electric storage, in more useful locations and without major environmental impact. We have patent pending technologies to increase efficiency to well beyond that achieved by any other CAES installation.

Storelectric's CARES project in Cheshire is recognised as important at a continental scale, having been [accepted](#) as a [European Project of Common Interest](#). Storelectric also recently won the [NAM70 Challenge](#), an international competition for large scale energy storage technologies.

All information in this email is confidential and to be used solely by the addressees and those for whose attention it is intended by the sender.