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James Veaney
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Re: RIIO-ED2 Sector Specific Methodology Consultation

Dear James Veaney,

I am writing on behalf of the RenewableUK, which is the representative body for the future energy system – one that is powered by clean electricity. We support over 400 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and to access export markets all over the world.

RenewableUK welcomes the opportunity to respond to the RIIO-ED2 sector specific methodology consultation. The beginning of the fifth carbon budget coincides with the end of the 5-year electricity distribution (RIIO-ED2) price control, and a colossal amount of change will have to be delivered during this time. There is welcome progress set out in the RIIO-ED2 methodology and we are pleased a greater regard is being placed on decarbonisation and the UK's legally binding net zero target within the next price control period. It is critical that the RIIO-ED2 framework drives investor confidence so that networks are provided with sufficient and timely allowances, which reflect the needs of future consumers, and the value for money of networks in five years' time.

During the next price control DNOs will have to make significant efforts to deliver strategic investment of new capacity. DNOs will face different types of uncertainty than those in RIIO-ED1 for which different tools and mechanisms will have to apply. Significant questions remain on how the proposed new uncertainty mechanisms will stack up with the new roles and responsibilities of DNOs/DSOs, in order to drive the significant change on the system which is needed to achieve net zero.

Net-zero and uncertainty mechanisms for strategic investment

The introduction of a net zero re-opener is a positive step. Uncertainty mechanisms are appropriate where policy and frameworks are still being developed and the requirements are still unknown due to the rapidly changing nature of the sector. However, the industry is concerned that long or onerous processes can seriously risk delaying investment in vital infrastructure and ultimately jeopardise connecting the new renewable generation that is needed to stay on track for net zero. In our response to the recent RIIO-2 draft determinations for the electricity transmission sector, we asked for the proposed approach to the net zero re-opener to be reviewed to address the risk of delays in connection of new renewable capacity. It is important that the industry and the regulator have open conversations about the expectations and use of uncertainty mechanisms, and the need for agility

and continuous improvement in the way price adjustments are made.

The network price control framework needs to encourage DNOs to continue to remove barriers to ever increasing amounts of renewables and innovative smart technologies. Both the LCT volume driver and the capacity volume driver address the uncertainty of load growth and are a welcome step in managing the requirements to meet net zero.

The proposed approach to strategic investment, in particular the capacity volume driver, merits further investigation. We would like clarity on whether the capacity volume driver will capture increased network utilisation as a result of generation-led (export) constraints at higher voltages (e.g. EHV). We would be supportive of a mechanism which monitors network asset utilisation in a way that allows DNOs to release more capacity in areas of the grid where assets are experiencing high level of Active Network Management. It is unclear from the outlined scope of both the capacity volume driver and the LCT volume driver how generation-led constraints will be factored into DNOs' strategic investment decisions.

It is important to remember that there is currently no record of distributed non-BM generation being constrained; or a mechanism to account for the additional loss of production or O&M costs as a result of Active Network Management curtailment. This issue will increase in importance as further generation and network flexibility providers connect at distribution voltage levels. DNOs must effectively address the challenges involved in providing a common level of constraints, to ensure the network and its users can build a clear understanding of how capacity is being managed, where spare capacity is available and where more can be done to manage constraints, e.g. by considering if the need could be better serviced through a network solution.

As smart meters are more commonly rolled out during RIIO-ED2, and network monitoring expanded down to LV level, a specific incentive should be placed on DNOs to enable greater visibility of network utilisation at lower voltages. There is limited network monitoring at lower voltages currently. A specific RIIO-ED2 financial incentive could aid roll-out of wider monitoring and closely interact with uncertainty mechanisms that rely on network utilisation data, such as the capacity volume driver.

Interplay between Access SCR and RIIO-ED2

We would welcome if future development of the uncertainty mechanisms for strategic investment under RIIO-ED2 considers the allocation of curtailment risk and associated costs to connecting customers, as this may have a subsequent impact on the efficiency of network operation and investment. Under the current regulatory charging and access rules, both curtailment risk and cost to recover the reinforcement remain with the connecting customers. Although interplay between RIIO-ED2 and Access and Forward-Looking Charges SCR (Access SCR) is emphasised in the sector specific methodology, their interaction is unclear to the industry. Specifically, future focus should be placed on how network charges will drive optimisation of existing capacity, or act as a trigger for additional grid reinforcement and how this will be incentivised via the RIIO-ED2 framework.

It is important that in the next price control, Ofgem outlines the expected impact of Access SCR on DSO transition plans and efficient network development. The Access SCR will form the basis of the implementation of the RIIO-ED2 price control. This includes finding the right balance between the signals for flexible distribution network which are sent through market mechanisms such as flexibility services and those that are set through charging arrangements.

Changes to the network charges regime and the ongoing development of the Access SCR would



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affect market-based revenue streams of generators and, if not properly designed, limit the value of DER flexibility providers. Future work should be focused on the interaction between the proposed uncertainty mechanisms for RIIO-ED2 and the stated Access SCR objective of efficient network development through more cost-reflective signals. This is not specifically addressed in the detail provided through the methodology consultation.

DSO transition and directly remunerated services

We are pleased that Ofgem has supported optionality for wider institutional change, should the case of splitting DNO and DSO become significant over the course of RIIO-ED2. It is of particular concern that the DNO will not have aligned drivers with the DSO in the long run. The ESO, in its enhanced role and legally separated from the other National Grid companies, has clearer drivers to be able to minimise the cost of residual balancing on network users. However, the DNOs, as businesses with different funding and incentive arrangements from the ESO, have a financial incentive to increase the overall volume of distribution assets and will not have the same incentive to adopt non-build network options.

Open visibility of all DSO services will be important driver of increased market transparency. A continued provision of Customer Load Active System Service (CLASS) as a balancing service in RIIO-ED2 will require more clarity on the ESO and DNO data exchange and dispatch. We further note there are significant risks with utilisation of CLASS, outlined in our response to the recent consultation, which if not properly addressed could ultimately increase cost to end-consumers and jeopardise the value of local flexibility markets for DER.

More transparent approach to DSO costs

The totex incentive rewards DNOs for effectively managing system requirements. Under the current arrangements, DSO expenditure is recovered from the overall totex allowance, while a separate recovery of spend would make the process more transparent. Costs related to procuring flexibility could potentially be considered part of opex to provide an added incentive for DNOs to plan an optimal network, minimise network outages and sufficiently utilise flexibility. Essentially these costs should be seen as BSUOS elements at distribution level and should be treated as such. It is important that the way costs for procuring flexibility are recovered does not unduly penalise market participants.

Yours Sincerely

Yonna Vitanova
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