

Energy Networks Association Response to Ofgem Statutory Consultation on RII0-GD/T2 Re-Opener Guidance and Application Requirements Document Appendix 3¹

Introduction

1. Energy Networks Association (ENA) represents the companies that operate and maintain the gas and electricity grid network in the UK and Ireland. Serving over 30 million customers, they are responsible for the transmission and distribution network of 'wires and pipes' that keep our lights on, our homes warm and our businesses running.
2. The strong track record of our energy networks since privatisation in 1990 in improving services and lowering costs is key to understanding the role that they can play in the future. Continued high quality and efficiently delivered energy networks services are essential for both consumers and to help the government meet its short, medium and long-term objectives for energy policy.
3. Our energy networks are recognised around the world for their strong track record of safely and securely providing the UK with the heat and power it needs underpinned by three key areas.
 - I. *Trusted performance.* The average gas customer will experience an unplanned interruption once every 140 years. Since privatisation customers have 59% fewer power cuts while their length has been reduced by 84%. Since 2010 DNOs have collectively reduced the number of customer interruptions by 36%; reduced the duration of customer interruptions by 46%; increased customer satisfaction scores to an industry average of 90%; and connected over 1 million distributed energy resources that are predominantly low carbon.
 - II. *Reduced costs and increased investment.* Network costs are now 17% lower than they were at the time of privatisation and are projected to remain flat, and in some areas fall, into the next decade. The UK's energy networks have attracted over £100 billion of investment since 1990. A significant proportion of which is spent with UK companies. New investment in the networks is forecast at £45bn between 2017 and 2023.
 - III. *Strong innovation.* Independent research carried out by Pöyry for Ofgem has shown that innovation projects by electricity Distribution Network Operators (DNOs) could deliver up to £1.7bn of benefits by 2031. Additional benefits will also flow from the innovation undertaken in the other network sectors. The latest gas network economic assessment of hydrogen shows a net benefit to customers of £89 billion by 2050 if investment into the sector is made today.

¹ RII0-2 Re-opener Guidance and Application Requirements Version1 Draft: https://www.ofgem.gov.uk/system/files/docs/2020/12/reopener_guidance_and_application_requirements_document.pdf This document is directed at gas and electricity transmission network companies and gas distribution network companies.

4. We welcome the opportunity to respond to this consultation. Our response specifically relates to Appendix 3: Coordinated Adjustment Mechanism (CAM) Re-opener Application Guidance on behalf of our members. Our members operate long-term asset businesses, so it is clear to them that meeting consumer needs and enabling government policy is at the heart of how they succeed. ENA consider that the introduction of a CAM is consistent with and facilitates these objectives.

Delivering a Smart Low-Carbon Whole Energy System

5. ENA member companies are at the forefront of the smart transformation that is well underway and increasingly gathering pace. The changes to the way in which we design, build and operate our electricity and gas networks will support and enable the introduction, development and scaling up of low-carbon technologies and systems that will deliver reliable and affordable low-carbon energy to our homes and businesses.
6. Our members believe the greatest efficiencies in delivering a secure, low-carbon sustainable energy system will be realised through the adoption of a ‘whole system’ approach. For us a whole system approach means looking at optimal network investment and operational decisions for the whole energy network (such as across the traditional distribution-transmission divide), not just the individual parts in isolation. It also means considering interactions across energy vectors (e.g. power, energy storage, transportation and heat networks) so that wider options and consumer value can be taken into account. It is essential the regulatory framework supports these government and consumer goals.

Coordinated Adjustment Mechanism

7. Our members are therefore supportive, in principle, of the introduction of a new CAM re-opener that will enable the responsibility and allowed revenue to be allocated from one network (licensee) to another where an alternative solution to an outcome originally intended to be delivered by one network (licensee), is identified on another network and where this is likely to deliver better value for consumers.
8. Our members are also supportive of Ofgem’s approach in terms of key features of the CAM:
- The re-opener is voluntary with one of the affected licensees required to submit an application;
 - May be used on a cross-sector and within sector basis i.e. across gas and electricity transmission and distribution sectors;
 - The timing of the introduction (April 2021) is appropriate for Gas and Electricity Transmission Licensees given their price controls will start at this time, representing the start time of the majority of new regulatory periods, thereby providing alignment across a number of sectors and maximising potential opportunities;
 - We note the proposal in Ofgem’s statutory consultation² to allow electricity DNOs to access the re-opener. The ED2 price control, as it develops may identify further developments to the CAM which may need to apply to all licensees in due course; and
 - The use of annual reopener ‘windows’.

² Statutory consultation of proposed changes to the Specific Conditions (also known as the Change Restriction Conditions ‘CRC’ of the electricity distribution licence
https://www.ofgem.gov.uk/system/files/docs/2020/12/17_december_2020_ed1_statutory_consultation_on_cam_licence_002.pdf

Open Networks – Delivering a Whole System Transition

10. ENA's Open Networks Project brings together our electricity and gas members, along with stakeholders and is the first industry project to consider efficiencies across electricity and gas networks.
11. By considering whole energy systems, we are looking to save consumers money by using the most efficient and cost-effective energy for network needs. The project is enhancing data sharing between gas and electricity networks, sharing information on managing network constraints, and improving short term forecasting to optimise existing processes through greater interaction.
12. Investment planning is also a key focus of the whole energy systems work, taking existing network or specific gas or electricity processes and exploring the value of greater coordination, collaboration, refinement, and evolutions to deliver the most cost-effective solution to the consumer.

ENA Whole System Cost-Benefit Analysis Framework

13. A fundamental requirement of an application to Ofgem to apply the CAM is that it must demonstrably deliver greater benefits to consumers.
14. Under Open Networks a whole energy system cost-benefit analysis (CBA) methodology and tool has been developed. This Whole System CBA framework aims to enable the comparison of costs and benefits across different sectors, across a number of stakeholders (regulated and non-regulated) as well as across a number of scenarios.
15. We are delighted that Ofgem has given formal recognition³ of the Whole System CBA framework and its use as an essential part of the evaluation of network proposals under the CAM. The ENA CBA framework tool is also recognised in the RIIO-2 NIA Governance Document⁴. The tool will help identify and evaluate efficiencies in the whole system and ensure that the best decisions are made for consumers.
16. The Whole System CBA deliverables are publicly available for use and are linked below:
 - [Model and tool⁵](#)
 - [Methodology⁶](#)
 - [User guide⁷](#)
17. Open Networks will continue to further test and develop this framework in 2021 with stakeholders and will set out processes for enduring governance of this model to manage changes to the framework in future years, such as a result of development of the RIIO-ED2 price controls.

³ See Annex 3 Paragraph 1.14 of the consultation document

⁴ https://www.ofgem.gov.uk/system/files/docs/2021/01/riio-2_nia_governance_document_-_draft_for_consultation_250121.pdf

⁵ <https://energynetworks.us18.list-manage.com/track/click?u=340f59cdee83f2a666cd804be&id=caeaf24bee&e=e002264c4d>

⁶ <https://www.energynetworks.org/industry-hub/resource-library/open-networks-2020-ws4-p1-cost-benefit-analysis-methodology.pdf>

⁷ <https://www.energynetworks.org/industry-hub/resource-library/open-networks-2020-ws4-p1-user-guide.pdf>

18. The ENA is not providing detailed comments on the overall re-opener processes and requirements set out in the guidance document, which Ofgem are proposing to apply in the context of RIIO-T2 and RIIO-GD2 re-openers and will need to be revised in the context of RIIO-ED2.
19. Any questions, comments or feedback on the model can be sent to opennetworks@energynetworks.org. For monitoring purposes, we kindly request users to let us know if they are using the model and methodology. We would welcome any views and feedback from users based on their experiences.
20. If you have any questions on the points raised in this response, please contact John Spurgeon, Head of Regulatory Policy, Energy Networks Association email: john.spurgeon@energynetworks.org

Energy Networks Association
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