Summary

This report seeks to update Members on the progress achieved to date in further developing the findings of the Utilities Regulation study, which was publically launched in March 2012. Following the completion of the report and with the agreement of UKPN, the “Electricity Regulation Working Party” has since been formed to further investigate key findings of the report. The working party comprises UKPN and key stakeholders representing London’s Central Business District, and its purpose is to make representations to electricity regulator Ofgem through UKPN’s price control review stakeholder engagement program, to promote wider anticipatory investment into London’s electricity network. Such additional investment would allow provision of greater network capacity, and the installation of spare ducts under the highway, which would facilitate more timely connections to development sites and reduce the level of disruption caused by street works.

Recommendations

a) That Members review and note the contents of this report.

b) That CPAT reports back on progress of the discussions in 12 months’ time.

Main Report

Background

1. At the February 2012 Energy & Sustainability Committee, Members received and discussed a report of the City Surveyor which informed of the challenges which developers and businesses face in procuring new electricity connections in the Square Mile. The report also gave an overview of the findings of the first draft of the Utilities Regulations Study, commissioned by the City of London, London First and the City Property Association, in response to developer concerns relating to lack of timely connections, and a perceived lack of capacity in London’s electricity network. Members requested a report back on the progress of the Utilities Regulation Study.

2. The study sought to feed into UK Power Network’s (UKPN) Price Control Review, known as RIIO-ED1, which resets the regulatory framework, and
determines the amount UKPN can invest in London’s electricity network for the period 2015-2023. One of the key drivers for undertaking the study was to review the regulatory environment which presently constrains the ability for UKPN to make anticipatory investment. If further anticipatory investment were allowed then this would assist in building greater capacity and resilience into the network supporting London’s Central Business District (CBD) and help avoid delays in connections to new developments, which are costly to property developers, and affect occupier confidence when making strategic property decisions.

Current situation

3. The final version of the Utilities Regulation study was launched in March 2012 under the title: “Delivering Power: The Future of Electricity Regulation in London’s Central Business District”, and was written by Stephen Jones Associates and South East Economics. The study was well received by London’s property industry, with positive media attention from Property Week, Estates Gazette and City AM. Letters from The Rt Hon Lord Jenkin of Roding, and Tim Yeo MP were also received, commending the study, and agreeing that further work is needed in ensuring that London is provided with the necessary infrastructure to support future growth.

4. The study identified a number of key findings and recommendations which are enclosed below:

**Key findings:**

- Universal concern from developers and businesses regarding last minute untimely delivery of connections.
- Widespread concern that investment in London’s CBD’s electricity network is insufficient to meet future need.
- Developers would pay more to secure connections in a guaranteed timeframe.
- Inadequate stakeholder engagement regarding updates on progress of connections, transparency of costs, demand modeling and future network capacity.
- UKPN not incentivised to undertake anticipatory investment in areas of expected high load.

**Recommendations**

- Need for improved stakeholder transparency and consultation.
- To gain greater clarity of UKPN’s future investment programme and demand modeling. (Local Authorities / GLA can assist by providing development forecasts and using planning system to capture future loads for new developments).
- Consideration of how greater flexibility can be built into regulatory framework to allow DNO’s to be incentivised to undertake anticipatory investment in additional substations, and spare ducts under the highway to reduce ‘just in time’ provision.
- Formation of a joint working group (The Electricity Regulation Working Party) with UKPN to make further progress on the recommendations.
Electricity Regulation Working Party

5. The Electricity Regulation Working Party has been established, comprising representatives from City of London (Director of Built Environment and Steven Bage of CPAT), City of Westminster, London First, the City Property Association, Westminster Property Association, the GLA and UKPN, to review the key recommendations of the study, with particular focus on the need for improved transparency of UKPN’s demand estimates and to allow consultation with key stakeholders to advise UKPN of forthcoming development to inform future investment plans.

6. As part of the RIIO-ED1 process, UKPN must provide clear evidence to Ofgem that they have undertaken sufficient stakeholder engagement as part of the formulation of their business plan for the period of 2015-2023. This provides the Electricity Regulation Working Party with a real opportunity to influence the future development of the business plan and where necessary seek to influence how UKPN’s business is regulated.

RIIO-ED1 timescales

7. UKPN presented their draft business plan to Ofgem in August 2012, which will be shared with the Electricity Regulation Working party, and will provide a “baseline” position from which to consult further with stakeholders, through to May 2013 when UKPN’s “fast track” business plan will be submitted. If Ofgem decide that the business plan is acceptable, UKPN will be permitted to start the new price control review period a year early from 2014, however if not then UKPN will need to undertake further stakeholder consultation and submit a further business plan in December 2014, with Ofgem’s final decision being made in April 2015. The ability to “fast track” provides a real incentive for UKPN to demonstrate it has listened to stakeholders and has sought to accommodate their concerns in formulating the business plan. The formation of the Electricity Regulation Working Party is key to this process and UKPN will need to demonstrate that issues have been addressed in their final submission.

Willingness to pay survey

8. The study highlighted that developers would be willing to pay more if it could be guaranteed that their connection would be delivered within an agreed timescale. As part of the RIIO-ED1 process, UKPN will be undertaking a “willingness to pay” survey in November 2012, to determine customers’ inclination to pay more for a better service. The Electricity Regulation Working Party will ensure that stakeholders taking part in the survey are representative of the business and development community in London’s CBD, to ensure the appropriate response.

UKPN Central London Strategy

9. In recognition of London’s importance to the UK’s economy, and as a result of the extensive representations outlined by the study, UKPN has for the first time included £210m of anticipatory investment as part of their draft business plan submission for RIIO-ED1, which will speculatively fund additional network capacity and resilience at 5 strategic substations, ahead of need, and will
lessen the delivery times of connections to future development sites within the CBD (including the City of London).

10. The study also expressed concern over the wider impacts of the existing system that promotes a “just in time” approach in terms of electricity connections, and leads to numerous ad hoc street works causing severe disruption to the City’s highway. UKPN has already installed spare ducts in certain parts of the City for future use, which will shorten delivery times and reduce the impact of future street works to install electricity supplies. It is unclear at this stage what proportion of the £210m of anticipatory investment will be spent on spare ducts, but it is expected that there is likely to be investment of this kind to reduce disruption to the City’s busiest roads.

11. Ofgem will need to consider whether customers (residential and business) outside of London, should fund this investment to pay for additional resilience, which is in excess of that required by UKPN’s existing licence conditions. UKPN is considering the possibility of introducing a “business user tariff” which would mean that developers and businesses in the CBD would pay specifically for the electricity in Central London, which would eliminate any “cross subsidy” by residents.

12. CPAT has suggested to UKPN the possibility of a “premium user” tariff for customers requiring a larger and faster connection, which would allow UKPN to charge more for speculatively investing in additional network capacity and spare ducts under the highway, the risk of which could be offset by charging a greater amount for connection (with UKPN achieving a higher return), on the proviso that the connection could be delivered in a faster timescale. UKPN is still considering this proposal and will provide a response in autumn 2012.

Ofgem meeting 1st August 2012

13. CPAT and the Westminster Property Association, (representing the Electricity Regulation Working Party), attended Ofgem’s “Flexibility & Capacity Working Group” which was attended by all UK electricity Distribution Network Operators (DNO’s) on 1st August 2012, where anticipatory investment was debated. Ofgem confirmed that there is reluctance amongst DNO’s to invest ahead of need as they are concerned about inefficient investment being construed as “stranded assets” resulting in loss of revenue to DNO’s. However, Ofgem stated that they have never clawed back revenue due to stranded assets and would not do so unless there was a case of serious misuse of funding, and would consider benefits of investments being carried over into other price control periods which suggests that UKPN’s predecessor EDF have been unnecessarily reticent to invest ahead of need. Ofgem concluded by saying that there is no regulatory reason why UKPN cannot invest ahead of need, however it is unclear at this stage whether they will agree the £210m anticipatory investment in proposed as part of UKPN’s draft business plan.
Demand Modelling

14. The study emphasised that there is no granularity in UKPN’s future demand forecasts and UKPN are not made aware of the amount of electricity needed by a new development, until the developer signs a connection agreement. There is therefore a need to provide UKPN with a better understanding of when future development is likely to occur, and the electricity infrastructure needed, to inform their future investment plans.

15. The City of London and Westminster City Council have provided UKPN with office development forecasts up to 2021, to provide a greater indication of forthcoming development, and how UKPN’s network will need to be able to accommodate this additional electrical load. The City of London’s forthcoming “Development Management Policy” will require developers to incorporate demand management measures in order to minimise energy use; to specify at the planning stage of the development, the amount of electricity that their development will require, (to provide UKPN with an earlier understanding of future demand); and to specify the routes for supply in order to allow the City’s Highways Department to better coordinate future installation works.

Conclusion

16. The City of London, along with the other members of the Electricity Regulation Working Party will continue to:

- Work alongside UKPN and key stakeholders, in demonstrating the need for anticipatory investment in London’s electricity network supporting London’s Central Business District, to provide greater network capacity and ducting ahead of need to reduce disruption caused by street works.

- Indicate to UKPN key development sites and areas, providing updates on likely completion dates and when electricity supplies will be required.

- In conjunction with the GLA and Westminster City Council, further develop and adapt future planning policy to ensure that expected electrical loads needed by new developments are captured at planning stage, and fed back to UKPN to inform future demand modelling and anticipatory investment.

- Monitor the efficiency of UKPN in delivering new connections to development sites in a timely manner, providing feedback to Members on any noticeable improvement experienced by developers, as a result of improved.

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