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Sent by email to: FutureNetworkRegulation@Ofgem.gov.uk

Dear Akshay,

Open Letter on the next network price control review process

Thank you for the opportunity to respond to the above open letter. This is a non-confidential response on behalf of the Centrica Group.

Ofgem has correctly identified the strategic issues that should be considered in the development of the next price control review process. Ofgem has also correctly identified those areas in which the price control framework should be improved in order to address the strategic issues.

We think that the 'Revenue = Incentives + Innovation + Outputs' (RIIO) framework has been a positive development. The stronger relationships between output delivery and the revenues that the network companies earn, and also between the extent to which the network companies innovate and revenues, have delivered better value for consumers. Ofgem sought to improve the RIIO framework for the second round of RIIO price controls (RIIO-2). For example, Ofgem:

- increased the use of uncertainty mechanisms to set allowances and outputs was increased in order to reduce the risks associated with the higher degrees of uncertainty about investment needs when the price controls are set;
- placed greater emphasis on the identification and delivery of whole system solutions;
- allowed the companies to propose anticipatory network investment and different risk-sharing mechanism for those projects; and
- set business plan periods within the context of a longer-term investment horizon for the Electricity System Operator.

These improvements are relevant for accommodating some of the strategic issues that Ofgem has identified that should be considered in the development of the next price control review process.

The case for wholesale change to the regulatory framework for setting network price controls has not yet been made. The RIIO-2 transmission and gas distribution price controls are in the second year of operation and the electricity distribution price control has not yet started. This means the capacity of the RIIO-2 framework to accommodate the strategic issues has not yet

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been fully tested and, so, firm conclusions about its efficacy would be premature at this stage. We recommend focus is placed on further evolving the RIIO framework to accommodate the relevant strategic issues rather than introducing an alternative framework.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Gregory Edwards
Network Regulation Manager
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