

Akshay Kaul
Ofgem
10 South Colonnade,
Canary Wharf
LONDON
E14 4PU
FutureNetworkRegulation@Ofgem.gov.uk

31st October 2022

Wales & West House
Spooners Close,
Celtic Springs, Coedkernew
Newport NP10 8FZ

Ty Wales & West
Clos Spooner,
Celtic Springs, Coedcernyw
Casnewydd NP10 8FZ

Wales & West Utilities Limited (WWU) response to 'Open Letter on the next network price control review process'

As the gas distribution network (GDN) in the south west and Wales, we welcome the opportunity to respond to the open letter and believe the issues you have identified will support the development of the future regulatory structure needed to deliver net zero.

We support the principles of the original RIIO framework which was designed to deliver for customers and believe it should revert back to these original principles for which it was designed; allowing the networks to deliver for customers, improving outcomes and service levels – whilst sharing efficiencies and outperformance with customers and appropriately incentivising investors. With some adjustments for the use of hydrogen and supporting investment ahead of need, we can ensure RIIO is fit for the future. Long term planning for the energy system is key and does not necessarily need alignment of energy companies price controls – just appropriate plans for regional outcomes. It is too soon for radical reforms however, to ensure a long-term future for hydrogen will require incentives for investors and certainty over returns.

We firmly believe Hydrogen has an enduring part to play in the GB energy system of the future and the use and role of the gas networks is vital to achieve this. To deliver these whole system solutions, the same regulator should be responsible for hydrogen as the rest of the power network, allowing a holistic and whole system approach to investment for today's and tomorrow's customers. The scope of the future system operator is not yet clear, but we firmly believe regional planning and working with relevant stakeholders will allow for optimal solutions to meet customers across the UK needs.

Work towards net zero isn't new, we have 47 power stations connected to our network providing electricity when renewables like wind and solar are not available. We have 20 green gas sites injecting decarbonised green gas into our network to provide green heat to equivalent of around 160,000 homes. Additionally, our network supplies bus garages in three locations across the south west of England, fuelling CNG buses that improve air quality and reduce carbon emissions from public transport. It is therefore important that the regulatory framework supports further development as the investment needs become clearer to deliver net zero.

Wales & West Utilities Limited

Registered Office/Swyddfa Gofrestredig: Wales & West House, Spooners Close, Celtic Springs, Coedkernew, Newport NP10 8FZ.
Registered in England and Wales number 5046791



Smell gas? Call us free on
Aroglu Nwy? Foniwch Ni Am Ddim

0800 111 999*

* All calls will be recorded and may be monitored. For information on our privacy policy see: www.utilities.co.uk/legal
* Caiff pob galwad ffôn ei gofnodi ac efallai'i fonitro. I gael gwybodaeth am ein polisi preifatrwydd, gweler: www.utilities.co.uk/legal



0800 912 2999



enquiries@wwutilities.co.uk



www.utilities.co.uk



[wwutilities](https://www.facebook.com/wwutilities)



[@wwutilities](https://twitter.com/wwutilities)



[@wwutilities](https://www.instagram.com/wwutilities)

We lay out our response to your questions below which includes some principles and options for you to consider in your sector specific methodology. We would be very happy to meet with you to discuss our response further if that would be helpful?

Please note this response is not confidential.

We look forward to working with you to shape the future of regulation during this transitional time.

Yours sincerely



Sarah Williams
Director of Regulation, Asset Strategy and HS&E

Appendix – WWU's responses to Ofgem's specific open letter questions

Q1 - Do you have any views on the strategic issues we must consider in the development of the next price control review process?

We agree with the issues you have identified; however, there are a number of additional strategic issues (listed below) that also need to be considered in future network price controls. While future regulation will need to address these issues, it is also important that regulatory changes should retain and build on the many successful aspects of the RIIO framework, adjusting for its weaknesses.

It is clear that the GB energy system in the coming decades will look very different to today as a result of fundamental changes, such as the Net-Zero transition and changing patterns of energy supply and demand. We recognise Ofgem's points that the increasing pace of transformational change, the need for whole-system co-ordination and the importance of managing uncertainties will be key features of this transition and therefore necessary features of price controls in the future.

There are a number of other strategic issues that Ofgem will need to consider as part of the development of the next price control specifically:

1. The Future of Energy (FOE) and the role Hydrogen
2. Regional approach to energy
3. Resilience is a critical strategic issue
4. Protecting Consumers
5. Health & Safety Considerations

Each of these is explained in more detail below:-

1. The Future of Energy (FOE) and the role of Hydrogen

We firmly believe that Hydrogen will be a significant part of the energy mix in any decarbonised future in the UK and the regulatory framework should support this. UK Government's (UKG's) legislated net-zero target for 2050 and interim carbon budgets have clearly set out UK's overall direction towards a decarbonised economy. The majority of credible scenarios demonstrate a role for gaseous fuels – particularly hydrogen – in the future energy system. The government has set out its overall ambitions in the Hydrogen Strategy.

Hydrogen provides energy storage on a large-scale that will be required to accommodate supply and demand, for both gas and electricity, occurring at peak times. The role of the gas networks in transporting and storing hydrogen will require appropriate regulation to incentivise the investment in the development and repurposing of the current network.

To maximise the opportunities for growth, there should be a clearer strategic aim for an integrated hydrogen system across the UK, to maximise efficiency and the development of a liquid market in the long term. Analysis by BloombergNEF has shown that transporting hydrogen by road would cost up to £1.46/km while transporting hydrogen in pipelines would

cost a maximum of £0.19/km.¹ Setting this aim would give greater confidence to investors, developers and regulators.

Moreover, BEIS' heat and buildings strategy has set out how the UK will decarbonise its domestic, commercial, and industrial buildings, as part of the 2050 net-zero target. This will require a closer co-operation between GDNs and electricity distribution networks. A key question towards this co-operation is whether a sectoral alignment of gas and electricity distribution and price controls would be advantageous for Networks, or a cross-sectoral alignment between transmission and distribution price controls can provide more benefits. We believe as long as we have a clear long term plan it is not necessary to align the price controls and to add a regulatory burden that would require significant resources for a short period of time.

On Biomethane, the government is continuing to support new biomethane capacity through the Green Gas Support Scheme. The *Biomethane Study* we undertook in collaboration with NGN² demonstrated additional potential capacity as biogas CHP plants reach the end of renewable electricity subsidy support in the late 2020s. We believe the role of biomethane is crucial in the transition pathway – it offers an immediate solution which is available today and can be added into the network and used by customers without the need to change anything. Biomethane also offers a long-term green alternative in more rural areas where hydrogen may never be viable or will take many decades to reach these areas. The regulatory framework should support investment to ensure capacity is available for new or expanded production.

The gas networks are well underway with the extensive effort required to gather and compile the evidence case for safety for hydrogen including for the hydrogen village trials. This will involve understanding the differing properties of alternative fuels and how they behave in real – life conditions, the types of appliances that will operate on alternative fuels through to the competence requirements of those that maintain, repair and respond to emergencies to networks transporting alternative fuels.

There is also likely to be an important role for hydrogen in electricity power generation; to maintain the reliability and resilience of supply as the electricity system becomes increasingly more dependent upon renewable energy from intermittent sources. To deliver the most efficient transition for consumers across the whole system, it is critical that any future regulatory regime includes appropriate measures to support both gas and electricity networks in delivering this important national goal of net zero.

The development of the hydrogen policy agenda is moving forward at pace and with significant GDN involvement, largely under innovation funding. It is therefore important that any developments in network regulation are sufficiently flexible to support the changes needed to move to the next stages of hydrogen development. With BEIS' decision on Hydrogen blending expected in 2023 and the UKG's decision on Hydrogen for domestic heating expected in 2026, work is well underway to demonstrate the use of hydrogen in the future energy system. With industrial clusters already demonstrating the need for hydrogen in energy intensive industries, the hydrogen village in 2026 delivering 100% hydrogen to homes and smaller businesses and then multiple hydrogen towns extending to 10,000 – 20,000 homes and businesses by 2030.

¹ BloombergNEF, 'Hydrogen Economy Outlook: Key Messages', 2020.

² [Biomethane Study | ENA Innovation Portal \(energynetworks.org\)](#)

Taken together, the requirement for hydrogen for the decarbonisation of industry, transport, heat and power generation – whatever the final technology mix – should give high confidence in its future role. Regulatory frameworks, working within current policy objectives, can and should set a direction towards an integrated hydrogen system which will support the development of a long-term market.

With regards to hydrogen, the direction of travel is becoming clearer and more certain, the future of network regulation needs to be designed to support that path, particularly in areas such as providing appropriate incentivisation and a clear environment for investors to invest in networks to support the energy transition.

The policy decisions that will determine the future of gas distribution networks will heavily impact GDNs' strategic plans, assets, operations and investments in the years to come. Given the lead times in mobilising capital and planning for the energy transition, clear guidance on the approach to network regulation for hydrogen is required for the next price control review. Whilst the pathway to decarbonisation may be in development, there is a significant amount of both, no and low, regrets investment which needs to be funded and appropriately incentivised in GD3 to inform delivery of the precise lowest cost option for tomorrow's consumers.

2. Regional approach to energy

The energy transition is likely to impact the gas networks serving different regions of the UK in significantly different ways. Each GDN faces bespoke, regional challenges, with varying levels of ambition within different local authorities as well as different regional government obligations. These regional differences will be driven by customer requirements and local availability of energy infrastructure, such as the existence of gas or electricity networks or capability of hydrogen / renewables production. For example, areas that will have bigger opportunities around renewable generation and/or green hydrogen (such as rural areas) will require different type of network infrastructure compared to regions with major industry and clusters of demand. It is highly important for the networks to manage this transition locally but without undermining today's security of supply using a national approach. Additionally, it will also be important for regulation to be flexible to allow networks to respond to these changes.

At present, we are finding that in addition to the national policy, Local Authorities and community organisations are pushing for more rapid action on decarbonisation. The Welsh Government declared a climate emergency in 2019, and all local authorities across Wales and south west England have Net Zero targets, strategies or action plans. We are actively supporting a number of these areas with energy planning, using our Pathfinder energy systems model. Additionally, large commercial users, some of which are within the industrial clusters, are driving the future demand for hydrogen which in turn is likely to be able to support transport and heat decarbonisation locally too (the South Wales Industrial Cluster, Hynet and South West Hydrogen are three such cases in our operating area). It is essential that the new regulatory regime is sufficiently agile to support these diverse solutions for different timings in different regions for each GDN and incentivisation mechanisms should be part of the new regime linked to local authorities' plans and companies' delivery.

Through RIIO3 we expect the requirement to develop and deliver local solutions to become increasingly important. This will include both planning and delivery activity, and whole systems coordination between energy vectors and across national, regional, and local levels. It is important that the price control needs to support more joined up planning to deliver the least cost decarbonised energy for all consumers.

3. Resilience is a critical strategic issue

The importance of energy supply resilience has recently re-emerged as a critical strategic issue due to the war in Ukraine and its implications to UK's security of supply.

Gas networks are a stable pillar in the energy system, operating as the backbone of the UK energy system, ensuring that security of supply will not be interrupted by providing a reliable infrastructure and ensuring that both gas supplies to homes and businesses and security of electricity supply will not be interrupted. Our contribution to the resilience and reliability of energy system is significant now and is also likely to remain significant throughout the energy transition and beyond.

Resilience from fuels such as gas is particularly more important as electricity production becomes more reliant on intermittent renewables-based generation, for example in a fairly mild September 2022 43.6%³ of electricity was generated from gas; gas networks not only play an essential part in heat but also in the resilience of power supplies. Any regulatory developments will need to ensure that resilience across vectors is maintained – and effectively incentivised and rewarded - during the process of transitioning to low-carbon energy, and also supports the importance of gas and hydrogen in the long-term resilience of the UK's energy system.

4. Protecting customers

The regulatory framework will need to ensure that no-one is left behind during the energy transition. The recent cost of living crisis has exacerbated energy affordability issues for customers which will need to be considered in the funding and regulation of the Networks during the transition. Additionally, the cost of energy as a whole – both gas and electricity - needs to be balanced to ensure consumers don't pay more than needed; UKG and Ofgem will need to evaluate whole system energy solutions which provide customers with resilience across both gas and electricity vectors. It is important to recognise as well, that hydrogen is likely to have a lower cost of conversion in the home when compared with other technologies such as heat pumps and regulatory frameworks need to ensure that heat decarbonisation is managed fairly, with options for those least able to meet upfront costs.

Rural customers must also be protected by the energy transition. Gas Networks can provide resilience and assistance to vulnerable and rural communities where power and heating from electricity is not an option, or during electricity outages caused in the Network by extreme weather events such as storms.

We expect the energy transition to require considerable levels of engagement with customers, for example customers will need to make decisions about when to replace boilers and with

³ Source: [National Grid ESO – September 2022](#)

what technologies. At present, we feel it is unclear which bodies in the gas sector will have the responsibility for supporting customers in this way. If networks are to play a role here, this will need to be reflected in the flexible regulatory regime. In any event a central coordination body is required to support the transition to decarbonised energy in the UK and planning for this will need to begin in RIIO-3 with significant input and support from network companies amongst others.

5. Health, Safety & Environment (HSE) considerations

GDNs are responsible for maintaining the safety of the network as laid out in existing legislation such as the 'The Pressure Systems Safety Regulations 2000 (PSSR)' and the 'Gas Safety (Management) Regulations (GSMR)' as well as complying with obligations under the Gas Act and the Utilities Act. Changes will be required under legislation in the future and the economic regulatory framework will need to support any additional investment to ensure compliance with new obligations under the amended safety regulatory framework.

Q2 – Do you have any views on the case for change we have outlined?

There is a case for change...

As we described in our response to Q1 above, there is a clear case for change ahead of the new price control for a series of strategic reasons.

But there are important aspects of RIIO to retain...

It is important to note we believe that the RIIO framework has many important strengths that should be retained. RIIO has had a number of successes, for example the significant improvement in customer service and the incentive regimes driving reductions in emissions.

We are aware there is clear room for improvement that will make RIIO more agile, investment-friendly, with less regulatory burden and ultimately more company-led, with clearer incentives. But ultimately, we want to see RIIO return to its initial fundamental principles (Revenue = Incentives + Innovation + Outputs).

On **Incentives**, we think there is a significant opportunity to link future incentives packages to the areas that we are being asked to deliver as part of the energy transition. Incentives should be related to

- investments that facilitate the net zero transition;
- cost efficiencies that GDNs achieve on network operational activities;
- delivering for customers
- managing uncertainties

On **Innovation**, it is crucial to see Ofgem supporting investment towards a safe, reliable, and sustainable network and promoting the energy transition. As we fast approach a decarbonised future, it is essential that the RIIO framework is true to its roots and supports innovation – the NIA has a proven track record of delivering value and this needs to be continued and extended to support the future challenges that lie ahead in RIIO-3.

On **Outputs**, the energy transition is likely to have a new range of outputs required of the gas networks that can be included in future regulatory reviews.

Future network regulation should enable the networks to propose and achieve ambitious targets without regulatory burden. In RIIO-2, we have not seen a lighter and simpler regulatory framework, as per Ofgem's initial commitments set out in the RIIO-GD2 open letter. Ahead of a new regulatory framework, we think that a simpler model regarding provision of information (i.e regulatory reporting) will be more cost-effective for GDNs, Ofgem and customers as resources can be allocated to delivering net zero and customers.

However, the areas of improvements are not only related to the design of the RIIO framework.

The energy transition will mean networks doing different things and regulation will need to recognise that...

We have been thinking extensively about what is likely to be required of us and other networks over the period of the energy transition. It is clear to us that we need to change as a business to fulfil our role and for a significant period of time we will have to maintain our natural gas operations as business as usual (BAU) until hydrogen becomes part of our everyday operating model.

As a result of our analysis, we see our costs and activities falling into four categories, each of which are likely to be subject to different levels of incentivisation and forms of regulation. In the table below we set out these four cost blocks of RIIO-3.

Cost category	Description	RIIO funding mechanisms
Base – Business as Usual (BAU) spend	Networks' fixed costs related to BAU activities or operational expenditure (including majority of repex) for compliance. These costs are easily anticipated/forecasted by networks.	Pass – through costs possibly with Volume Drivers
No regrets Cost Benefit Analysis (CBA) spend	Costs which can be justified by a CBA including Repex (Tier 2b and 3), the acceleration or extension of repex and potentially upsizing of capital projects. Examples of new spend in this area could include investment in new valves for sectorisation which will be needed in both a hydrogen conversion or a decommissioning scenario.	Ex-ante regime with management through PCDs or ODI-Fs
Likely scenario – Future investment in advance of the energy transition (no or low regrets investment)	Costs related to investment in advance of and to facilitate the energy transition. Examples include GDNs' investments in the network to support transformation for Hydrogen distribution – noting investment will vary by network.	Ex ante models and committed regulatory packages are important to mobilise capital for the delivery of these investment. Incentivisation could be used to ensure investment takes place
Innovation spend	Investments related to innovation projects on current GDN's assets and procedures and/or innovation investments on future projects.	Upfront allowances with clear rules (like the NIA) provide agility and support pace. Where Uncertainty Mechanisms

Cost category	Description	RIIO funding mechanisms
	Examples in GD2 include Network Innovation Allowance (NIA), Strategic Innovation Fund (SIF), Use-it-or-lose-it (UIOLI) allowance and various Net Zero re-openers.	(UMs) are to be employed, they will need to appropriately incentivise networks to recognise the difference between risk and reward.

The existing RIIO methodologies may be useful for the regulation of BAU spend, however as we have outlined in the table above other parts of the networks spend will require different regulatory models to support their successful execution.

Q3 - Do you have views on whether the changes to the electricity or gas sectors mean that there is a case to consider alternatives to the approach taken in the RIIO-2 price control?

As we mentioned in Q2, the principles of the RIIO framework are sound. During RIIO-1 those principles were applied in a way that delivered for consumers, improved gas networks' resilience, and appropriately incentivised companies to invest. We also identified in our response to Question 2 that the energy transition will have an impact on the activities and types of spend the gas networks will be undertaking and these areas may well benefit from alternative regulatory approaches to incentivise networks, mobilise capital and, therefore, ensure the best outcomes for customers including the sharing of outperformance.

Generally, the RIIO-2 outcome for the gas networks had lower levels of incentives available than in RIIO-1. This trend should be changed for future network price controls given the strategic challenges (as described in our response to Question 1 above) the gas networks will need to face.

We have identified a number of key principles that we believe are critical for a future networks regulatory regime to be successful in delivering the energy transition for customers. These principles are that any new price control framework should:

- 1) Be designed in a way that acknowledges both the importance of maintaining the existing network and supporting the transition towards net-zero in the UK.
- 2) Take into account the impact of the net-zero transition on the end user. The new framework needs to heavily incorporate affordability mechanisms that will protect vulnerable customers and ensure that no-one is left behind.
- 3) Be designed in a way that will acknowledge that transition will impact networks' customers and other stakeholders in different ways and at different times.
- 4) Be agile to adapt to the changing requirements of the energy transition and the different needs of end-users.
- 5) Unlock the contribution existing networks can have to the efficient, safe and cost-effective delivery of the infrastructure for Net Zero.
- 6) Attract capital to finance the energy transition and ensure that long term capital to finance ongoing core long term investment requirements (e.g. the repex programme) can continue to be attracted to the sector

Ofgem's proposed four alternative regulatory frameworks for the future regime do not cover all of the six principles above. The four frameworks each have advantages and disadvantages (as per table below), but we do not believe that any of them alone can be applied to the future of network regulation.

Proposed regulatory approach	Advantages	Disadvantages
Continued use of RIIO Type Framework	Recognised, stable and predictable framework for mobilising capital for investment in networks. Consumer engagement is embedded in the process. Allows incentivisation to deliver outputs for customers.	Significant business planning process which cannot always consider the uncertainties of the future. The application of RIIO in the RIIO-2 price control undermined the role of incentives and risk/reward.
An alternative ex-ante incentive regime	Less-resource intensive for Ofgem and networks due to lighter regulatory complexity with simpler targets for efficiency and productivity and review cycles.	A simplified framework with narrow focus on efficiency and productivity could unintentionally lead to short-term thinking, risking erosion of long-term Network incentives on delivering resilience and customer affordability. Additionally, a lighter approach without tailored regulatory checks could be detrimental for consumers and limit their participation on the energy transition.
Negotiated settlement	Increased customer engagement and participation in setting up the regulatory process. Direct negotiation with customers without regulator's participation	A very clear definition of who is to be negotiated with will be important and possibly with an implicit or even explicit ranking of the importance of different customers/counter parties' needs. Implementing whole systems solutions may be a challenge in the context of bilateral negotiations.
Ex post regime	Provides certainty to networks over allowances based on a pre-determined rate of return. This certainty can be translated into increased investment from Networks and higher deliverability for projects	An ex-post regime will be difficult to maintain the principles of incentive based regulation and will require intensive resources during the planning process. Provides limited agility for adapting to changing requirements during the regulatory process.

		Investors will find an ex-post regime a challenge as there is no certainty as to whether investment committed (and actually “in the ground”) will be allowed to earn a return, increasing regulatory risk for all investors.
--	--	--

The assessment of advantages and disadvantages of the models above leads us to three conclusions:

1. Some approaches are preferable to others;
2. A hybrid approach to gas network regulation is best likely to reflect and incentivise each of the spend categories we identified in our response to Question 2 above;
3. There are some key concepts that will need to be in place for gas networks to mobilise capital to deliver the energy transition for customers.

Each of these conclusions is discussed below.

1. **Some approaches are preferable to others**

The periodic review approach retains considerable merit. With adaptations to the approach to meet the strategic challenges and provide appropriate incentivisation and reward for the risks the gas networks will manage has the potential to facilitate the mobilisation of capital to deliver the energy transition customers require.

Model 2 would provide longer term regulatory stability and could have potential for application to the type of costs we described as BAU costs in our response to Question 2 above.

We see stakeholder participation (Model 3) as a critical part of what we do in any regulatory process. Our main concern is the implementation of the negotiated settlement process in the strategic context we described in our response to Question 1 in which the number and type of stakeholders is currently changing rapidly. Having said that, we expect that Ofgem will take into account stakeholders’ views (both traditional and new) as part of the design of any new regulatory model.

Our assessment is that an ex-post regime will present significant challenges for mobilising the investment required to maintain existing networks and invest to support the energy transition.

2. **A hybrid approach is likely to be preferable**

As we have outlined in our response to Question 2 we believe there is significant merit in using different forms of price control for different types of spend and activities gas networks will be expected to undertake during the energy transition. It is important that these regulatory models are implemented in a timely fashion to support the on-going preparatory work for the energy transition. We provide further thoughts on the hybrid approach in our answer to Question 4 below.

3. There are some key regulatory concepts to consider whatever the chosen model

As part of reviewing and changing regulatory models, we think it is important that where appropriate some of the original principles of RIIO which have delivered successful outcomes in the past continue to be applied. Such principles are:

- **Incentivisation:** the new regulatory framework should focus more on setting up-front positive outputs for Networks and reward companies via incentive mechanisms for quality delivery and service improvements. Net-zero related investments should also be part of a new incentives package. This link can mobilise Networks to invest early on existing or developing technologies and will facilitate energy transition of the UK energy system in a timely and cost-effective way.
- **Agility:** The new regulatory framework should be more agile to changes over different scenarios on gas future (for example Hydrogen decisions) and more adaptive to other uncertainties. A new Uncertainty Mechanisms (UM) framework should provide a clearer methodology to Networks for setting up outputs, a better-defined scope and clear timelines on Networks' revenue allocation. This will enhance Networks' certainty over their operations and will attract investments both short and long term.

Q4 - Are there any broad frameworks or options that you think we should consider, including variants and alternatives to those we set out?

As we mentioned in our answer in Q3, we believe that the development of the new regulatory framework (whether it is similar to RIIO or different) should be based upon the six principles derived from our strategic framework.

The new framework should consider the need for investment as we transition to decarbonised energy, support end users as we transition, enable different solutions and timing for different regions, provide agility to deliver against changing requirements, acknowledge the contribution of existing networks to provide resilient and cost-effective energy to customers and to be attractive to investors who are looking at UK and international markets competitively.

As Networks are needing to adapt to support important government decisions to deliver net zero, we don't believe that now is not the appropriate time for the development of wholesale changes to the RIIO regulatory framework. We think that the existing RIIO framework, with specific and tailored changes over a series of areas that we developed in Q3, can be the efficient tool for transitioning UK energy Networks toward decarbonisation. Our view of the type of model that could be considered is summarised in the table below which builds on the analysis of regulatory approach by cost category outlined in our response to Question 2:

Cost category	RIIO funding mechanisms	Other regulatory considerations
Base – BAU spend	Pass – through costs possibly with Volume Drivers	This area of cost could be subject to a longer term price review process. Volume drivers could be set ex-ante and the primary incentive would be around long term cost efficiency. Once an ex-ante price control was in place (eg for a period of

Cost category	RIIO funding mechanisms	Other regulatory considerations
		8-10 years) there would be limited need for regulatory intervention thereby reducing the regulatory burden.
No regrets CBA spend	Agreed in an ex-ante regime with incentivisation through PCDs ODI-Fs	The key consideration will be ensure an appropriate level of incentives.
Likely scenario - FOE investment advance of the energy transition	Ex ante models and committed regulatory packages are important to mobilise capital for the delivery of these investment. Incentivisation could be used to ensure investment takes place	Key issues to address will include: <ul style="list-style-type: none"> • Appropriate definition of energy transition scenarios for business planning purposes • A higher cost of capital will need to be considered to ensure that risk reward is aligned • Early addition of costs to the regulatory asset value to ensure capital for the energy transition is mobilised. • Funding levels to be agreed in advance to minimise regulatory uncertainty.
FOE Innovation spend	Regulatory pre-commitment approaches are likely to be required to ensure capital can be mobilised. Use of Uncertainty mechanisms (UMs).	Where UMs are to be employed, they will need to recognise the difference between risk and reward for the networks for this class of investment