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

Dear Jane,

Consultation on frameworks for future systems and network regulation: enabling an energy system for the future

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

We agree with Ofgem's view that strategic network investment to bring forward significant new network capacity efficiently, and at the right time and place is needed to prevent the energy system becoming an (even greater) obstacle to the Government's Net Zero objective¹. Strategic network investment that is efficient, timely and in the right location cannot be delivered without a much greater degree of strategic and coordinated whole system planning.

We accept that the current network price control framework can be improved. However, we do not consider that a wholesale review of the current framework or alternative models is required, especially since all three archetypes discussed in the consultation already feature in the current 'Revenue = Incentives + Innovation + Outputs' (RIIO) framework. Instead, the RIIO framework can be evolved.

We, therefore, recommend that:

- **Developing and implementing effective regulatory arrangements that enable strategic and coordinated whole system planning should be prioritised.**
- **It may be beneficial to delay the next electricity transmission price control, to allow the new arrangements to be developed and fully implemented.**

¹ Consultation document page 4.
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Developing and implementing effective regulatory arrangements that enable strategic and coordinated whole system planning should be prioritised:

It is clear that the electricity system requires considerable upgrades to accommodate the significant numbers of low carbon assets that will be needed to facilitate Net Zero. Consumers and network users already encounter substantial delays connecting to the energy system at both the transmission and distribution levels due, in part, to the lack of available network capacity. Deploying flexible assets inherently depends on being connected to the energy system. The lack of capacity already may already present an obstacle to facilitating Net Zero.

In our response to the open letter on the next network price control review process², we explained why Ofgem should focus on evolving the RIIO framework to accommodate the relevant strategic issues rather than introducing an alternative framework. Our view has not changed.

We do not consider that undertaking a wholesale review of or making major changes to the design of network price controls are relatively urgent because the RIIO framework can be and has been adapted to enable strategic and coordinated investment. Furthermore, a wholesale review will simply divert attention and resources away from what we consider is the immediate priority: developing and implementing robust and holistic regulatory arrangements that enable strategic and coordinated whole system planning.

We agree that the decisions that will be implemented in the next price controls will fundamentally define the energy system that will exist in the 2050s and beyond.³ We also agree that, among other things, network investment would occur without coordination and would be expensive and wasteful without a more overarching strategic plan.⁴ However, there are several initiatives that are currently being progressed that relate to strategic and coordinated whole system planning, such as:

- implementation of the Accelerated Strategic Transmission Investment (ASTI) framework;
- development of the Holistic Network Design;
- development of Centralised Strategic Network Plan;
- implementation of the FSO;
- (potential) design and implementation of Regional System Planners (RSPs);
- (potential) design and implementation of the Market Facilitator;
- design of industry arrangements for market enabling infrastructure and platforms, and
- design and implementation of the competition regime for onshore network infrastructure.

We welcome these initiatives. However, they have not been developed holistically and the myriad interactions between the various organisations have not yet been fully examined. For example, the activities that the RSPs could undertake have not been fully defined, how the FSO and the RSPs can develop a coordinated of future whole system needs has not yet been discussed and the role that network companies will play in shaping the strategic plans has not yet been discussed. There is a significant amount of work to be done to ensure effective and holistic operation. While each initiative is intended to improve coordination and whole system planning,

² <https://www.ofgem.gov.uk/publications/open-letter-future-systems-and-network-regulation>.

³ Consultation document paragraph 2.9.

⁴ Consultation document page 6.

we believe that there is a significant risk that disjointed implementation could have the opposite effect.

Developing and implementing effective regulatory arrangements that enable strategic and coordinated whole system planning will also require the RIIO price control arrangements to be adapted. For example, the outputs/outcomes that network companies will be required to deliver may need to be redefined. Ways in which performance improvements are encouraged will need to be reviewed. How the network companies should be held accountable for delivery according to the strategic plans will also have to be considered.

Similarly, appropriate price control arrangements will need to be designed for the FSO, the RSPs and the Market Facilitator. Again, there is a significant amount of work to be done to ensure that effective price control arrangements are designed and implemented for the various types of regulated entities.

In summary, the design and adaption of price control frameworks cannot be completed ahead of the development of regulatory arrangements that enable strategic and coordinated whole system planning. It is for these reasons that we recommend that developing and implementing effective regulatory arrangements that enable strategic and coordinated whole system planning should be prioritised.

It may be beneficial to delay the next electricity transmission price control, to allow the arrangements to be developed and fully implemented:

Ideally, the next round of network price controls should be set to deliver strategic whole system investment. This would require that effective regulatory arrangements that enable strategic and coordinated whole system planning are implemented, strategic plans are produced and price control frameworks have been either newly designed or adapted. We recognise the scale of the challenge. Nevertheless, we encourage Ofgem to be ambitious given the criticality of strategic network investment for facilitating Net Zero.

If the timescales are considered infeasible, we recommend that the next electricity transmission price control is delayed so that coordinated plans across the electricity system and the introduction of new bodies such as the FSO and RSPs can be incorporated. Focus should be placed on the electricity system in the first instance given the magnitude of strategic investment that is required. Additionally, accelerating the coordinated development of the electricity system could reduce delays for network users seeking connections to the distribution network because of constraints on the transmission network. Delaying the next electricity transmission price control does not mean a hiatus of coordinated planning in the interim. Initiatives that are currently being progressed that relate to strategic and coordinated whole system planning, such as implementing the CSNP and the ASTI framework can be fully embedded.

At this stage, we do not think that delaying either or both of the next gas network price controls would be problematic but it is unclear whether a delay would be necessary. We expect that maintaining asset health (instead of expanding capacity) will continue to dominate investment needs during the next gas network price controls.⁵ Incremental changes with respect to demand

⁵ We acknowledge that some investment is required for network capability.
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for network capacity or repurposing of pipelines for transporting hydrogen can be dealt with by the existing framework and the Net Zero uncertainty mechanisms introduced in RIIO-2. We do not see any major rationale at present for amending the current regulatory approach for gas networks at this stage.

This letter addresses most of the consultation questions but we have responded to some of the individual elements in the attached appendix. We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Gregory Edwards
Network Regulation Manager
Centrica Regulatory Affairs & Policy

Appendix: Responses to consultation questions

Q.1. What should the role of the ‘consumer voice’ be and through what institutions and processes should it be channelled?

Retail suppliers are in a unique position to represent the needs of their customers. Centrica itself has 6 million customers and a large amount of information and understanding that can support the design of price controls. network regulation. We are therefore ready to support the development of a fit-for-purpose framework for the next regulatory period through bilateral engagement and, where appropriate, engaging in consumer research to ensure that the development of networks continues to meet consumers’ needs.

Q.5. What are the network activities where there would be benefits for a move to an ex-post monitoring regime, and what would be the associated costs?

We do not recommend a move to an ex-post monitoring regime at this stage beyond the extent to which ex-post mechanisms are already used in network price controls. As we explain above, priority should be placed on developing and implementing effective regulatory arrangements that enable strategic and coordinated whole system planning given the urgency. Additionally, the RIIO framework can be adapted to enable strategic and coordinated investment.

Consumers have been required to and continue to be required to provide significant levels of funding to the network companies to undertake innovation activities. The benefits of the innovation activities have not yet fully flowed through to consumers. There is a risk that moving to an ex-post monitoring regime may mean that consumers fail to benefit from investment in innovation to the same extent that they otherwise would.

Q.9. Should there be a shorter-term price control in gas distribution and/or gas transmission, and how could this work in practice?

At this stage, we do not think that shorter-term price control in gas distribution and/or gas transmission would be problematic. However, it is unclear whether a shorter-term price control will be necessary.

Q.10. Would there need to be any changes to maintain a stable and consistent financial framework if we were to make greater use of different regulatory archetypes, and if so, what would those changes need to be?

It is important that any changes made can be demonstrated as providing a benefit to consumers and improving delivery of the required investment. For example, introducing elements of a ‘Plan and Deliver’ approach must lead to an improvement in outcomes in terms of the time taken for investment, or reduced financial costs either directly from other investors, or through a reduction in risk borne by the existing network owners (and allowing for a reduction in the cost of capital).