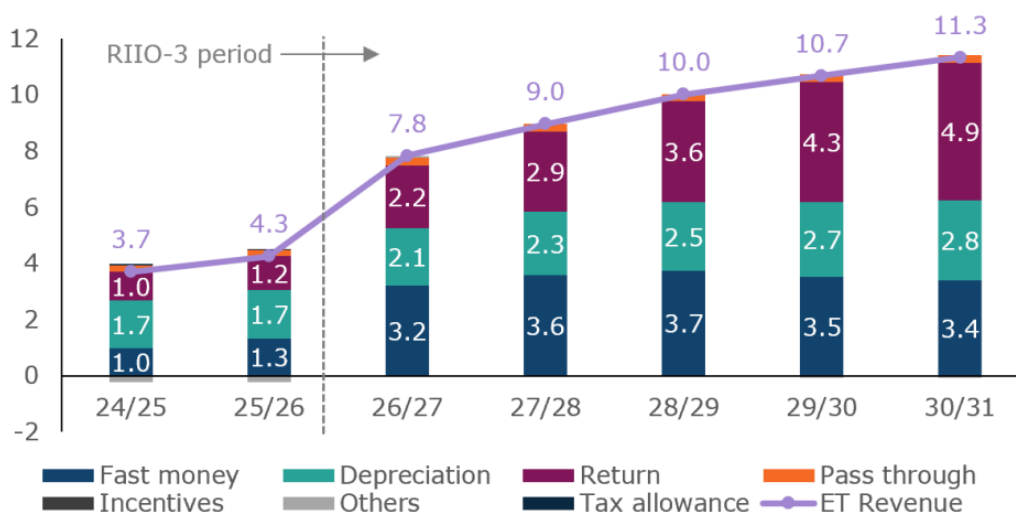


E.ON UK Response to RIIO 3 Draft determination

Executive Summary

- The Clean Power objective must be delivered at lowest cost. This means both upgrading the network strategically as well as using innovation. We should be ensuring the right commercial incentives are in place to encourage new solutions such as consumer led flexibility to help meet network needs in the short, medium and long term.
- We welcome the intention to allocate £500m of funding for Strategic Innovation but believe non-network innovators should be able to access this funding to test the potential for new ways to connect projects faster and unlock grid constraints.
- The ability of network companies to efficiently fund the agreed investment programme is an important part of RIIO 3. Nevertheless, we are concerned over proposals which front load electricity transmission funding far more than suppliers were expecting under the next price control, with network revenues rising by over 80% in 2026/27 compared to the previous year.
- The draft determinations will put additional burdens on hard pressed households and businesses through higher standing charges. This should be more clearly highlighted within the proposed package. Without any enhanced targeted support for vulnerable customers, it will push more of them into fuel poverty, as well as deepen the affordability challenge for some.
- These proposals will also lead to products recently sold in the market significantly under-recovering these regulated costs, especially in the non-domestic market. The Impact Assessment should look specifically at these issues, and consider options for mitigating the effects, including smoothing the revenue profile over time, looking again at the extent to which significantly more “fast money” is allowed and whether the significantly higher returns as proposed are required to finance the network operators’ activities.

Figure 1: Projected Price Control Revenue for RIIO-ET3, £bn, 2025/26 prices





- The unexpected sharp increase in network costs highlights the need for Ofgem, NESO and DESNZ to work more closely to ensure accurate forecasts which can be relied upon for developing new propositions to the market. We believe there is a strong case for Ofgem to publish on an annual basis an updated view of energy bills and how they are forecasted to change over the next 5 years to facilitate this. Greater predictability along with a longer lead time for implementing material changes will aid suppliers in setting innovative and longer term fixed priced tariffs without factoring in significant risk premiums associated with price control determinations.
- We note the intention to change depreciation policy for new gas distribution investments, whilst retaining the current depreciation methodology for gas transmission and electricity transmission. We agree with this broad approach which recognises some of the uncertainty over the future role of gas on the system. In contrast, no such uncertainty exists for electricity transmission, and we strongly agree that these assets should continue to be depreciated over a 45-year period. Reducing the asset lives would place further upward pressure on bills at a time when many household and business costs are already stretched.

Strategic Innovation Funding (SIF)

OVQ24. Do you agree with our proposals to allocate £500m for SIF funding?

Yes. We support SIF funding to explore new ways of delivering outcomes for customer cost effectively, and which have the potential to lower bills compared to simply upgrading the network in a traditional way. We strongly believe that consumer led flexibility can play an increasing role in helping to meet the licence conditions of the network companies, deliver faster connections which can underpin economic growth and alleviate constraints at pace which can reduce system costs for everyone. The funding pot should not only be accessible to network companies but also other participants who are developing innovative propositions to help reduce the overall cost of running the energy system.

OVQ25. Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?

We agree with the idea of setting long-term challenges and core innovation targets for RIIO-3 by mid-2026, based on recommendations from a Taskforce that will be established later this year. It is important that this is aligned with meeting key objectives such as delivering Clean Power by 2030 at lowest cost for customers. The Programmatic Approach however should enable innovators outside of network companies to put forward proposals that can help address the identified long-term challenges rather than being limited to network companies.

OVQ26. Do you agree with our proposal to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?

Yes. We welcome the introduction of a deployment fund. However, we believe there is merit in allowing some of this deployment fund to be open to projects developed by non-network companies to help lower the overall cost of running the energy system. We believe there is considerable opportunities for decentralised solutions to be deployed that could help alleviate network constraints on the electricity transmission system, for example the role of microgrids that could enable local communities to become more self-sufficient, and less reliant on imports which utilise the high voltage transmission network.



OVQ27. Do you agree that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF?

Yes, as per the answer to OVQ26. We support the intention to establish a process for third parties to submit project proposals to Ofgem targeting innovations which deliver consumer benefit but are unlikely to directly benefit the networks.

OVQ32. Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?

Yes. We support this proposal, and believe transformational projects developed by non-network companies should be able to apply for innovation funding where there are clear consumer benefits. This approach may well encourage partnerships to be developed between innovators and network companies. It may be helpful to be more explicit around the proportion of SIF funding that could be made available for such transformative projects.

Depreciation

FQ24. What are your views on our proposal to accelerate depreciation for new assets only in GD and is there any further evidence you would like us to consider before we reach a final decision?

Accelerating depreciation for new assets represents a cautious but logical approach to funding continued investment in the gas distribution system. The approach recognises the more uncertain outlook associated with these new investments at a more local level. However, until a final government decision is taken on the future role of gas for heating, it would not be appropriate to accelerate depreciation rates for existing gas distribution investments.

We accept that this will need to be kept under review as part of an agile approach to managing the potential risk of stranded assets in the future. Once the Government has made a clear decision on the future role of gas, it may then be appropriate to re-open the debate over how current and future gas investments should be paid for. Depending on the outcome, this may require a more fundamental rethink on how the existing gas distribution network is financed given the potential distributional consequences. As such, Government may need to play an important role here in coordination with Ofgem in finding an acceptable pathway through all of this.

FQ25. Do you agree with our proposal to maintain the existing depreciation policy for gas transmission assets?

Yes, we support this approach for now. However, we recognise that when the Government makes a clear decision on the future of gas, this approach may need to be revisited, but note that any acceleration of funds to investors would drive up energy bills in the short term which would exacerbate the affordability challenges that may still be persisting without other action being taken such as around policy costs.

Assuming there is at least some role for hydrogen to play in the energy system over the medium term, one of the key questions to answer will be around the extent to which the gas transmission network can be repurposed to support hydrogen over the alternative of creating a new hydrogen transmission network. The former would for example help to reduce the risk of stranded assets.



FQ26. Do you agree with our proposal to maintain the existing depreciation policy for electricity transmission assets?

Yes, we agree with the proposal to maintain the depreciation methodology for electricity transmission assets. The analysis presented in the draft determination suggests that the current approach will still be investable. This will also help to limit the impact of a material increase in capex over the RIIO 3 period for current customers, and in our view strikes the right balance over how such investments are paid between today's customers and future generations who will benefit from this through lower wholesale market prices and greater resilience to future price shocks as more of the demand can be met by home grown generation.