



RIO-2 framework consultation: Response from Bulb

May 2018

Summary

RIO-2 will fundamentally shape how energy networks can make energy simpler, cheaper and greener for all consumers. Bulb agrees with Ofgem that RIO-2 must do more to deliver for consumers and make investor returns fairer and reflective of the low-risk of these businesses. We also believe it is an opportunity to make energy networks more transparent about their spending so it is clear what they are doing to support a competitive retail market. For example, by addressing their cash collateral requirements which reward larger suppliers over mid-sized, independent suppliers. Finally, RIO-2 must look at how energy networks will work in collaboration with energy suppliers to help build a low carbon economy and support vulnerable households.

About Bulb

We are a technology-led energy supplier providing renewable energy to homes and businesses across the UK. The Bulb community is now over 350,000 members strong, all of whom are on our single tariff which provides 100% renewable electricity and 10% green gas. Through investing in technology to reduce costs, Bulb is able to supply renewables at prices around 20% lower than standard Big Six plans, making Bulb one of the cheapest suppliers in the market - renewable or not.

RIO-2 must deliver for consumers and make investor returns fairer

Bulb believes that making investor returns under RIO-2 fairer is critical for fixing the broken energy market and creating an industry that puts customers first. The Government and Ofgem have both recognised that returns for investors in energy networks under the current price control have been too high and not reflective of the risks these companies face. These are low-risk monopoly businesses and yet their profit margins are higher than in many markets that are genuinely competitive. This both costs consumers more and undermines trust in the energy market as a whole.

RIO-2 must do a better job at incentivising energy networks to reduce their operating costs and deliver a more efficient service. Analysis by Citizens Advice found that decisions made under RIO-1 cost consumers an extra £7.5 billion. £1.1 billion of these unjustified profits were due to the fact that the incentives designed to reward efficiency actually rewarded the energy networks which had inflated their initial estimates for the cost of staff and materials.¹ Further analysis from the ECIU found that with their current profit margins, the energy networks make the average annual household electricity bill about £20 higher than if their profits were in the same ballpark as the "Big Six".² Price controls should be more appropriately set for RIO-2 to avoid consumers continuing to lose out in the coming years.

¹ Citizens Advice, [Energy Consumers' Mission Billions](#), July 2017.

² Energy & Climate Intelligence Unit, [RIO Carnival](#), January 2018.



Further, Ofgem must build flexibility into RIIO-2 to ensure that it can be regularly reviewed and changed if necessary. Building in flexibility to address a rapidly changing market will mean that the lessons of RIIO-1 can be truly taken onboard and that consumers' interests will be protected.

RIIO-2 must encourage a competitive retail market by making networks' costs transparent

At Bulb we believe there needs to be increased transparency from the energy networks, and scrutiny from Ofgem, to demonstrate how any underspend in the price control is actually passed on to consumers. In particular, we support transparency as to how energy networks are, where appropriate, supporting lower charges for all suppliers so that consumers' bills are reduced.

For example, as a growing independent energy supplier we are often required by the energy networks to post large amounts of cash collateral - a cost that the biggest energy suppliers do not face. This can be a barrier to the growth of mid-size, independent suppliers. It also rewards larger energy suppliers, who hold much larger cash balances and have been found to charge households more. Energy networks will both demand immediate payment of hundreds of thousands of pounds of cash collateral or threaten default / breach of the DCUSA and then be very slow in returning this credit to suppliers when it is due. This example illustrates that energy networks' are not using the strength of their balance sheets in a responsible way for the energy market. It also suggests that networks' savings are not being passed on in a way that promotes a competitive retail market and value for money for consumers.

RIIO-2 must help energy networks to make energy greener and support vulnerable households

Bulb believes that energy networks should play their part in supporting the transition to green energy and addressing fuel poverty. These responsibilities are an important part of being an energy supplier and we're delighted to help deliver on them. But at the same time, we believe these obligations should be shared by all market participants and we're concerned that RIIO-2 includes scant detail on what energy networks will be required to do in these areas.

Bulb is interested in exploring the possibility of energy networks taking a more active role in delivering affordable warmth initiatives and low-carbon projects. In the rest of Europe, this is common practice. We believe a comparison of the costs and benefits of the UK's division of responsibilities between energy networks and suppliers with our neighbours would be worthwhile. We would also welcome the opportunity to discuss with Ofgem its emerging thinking on the future of the supplier hub model.