

# Support for Net Zero related investment in RIIIO-2

EY report for WWU

5 August 2020

# Important Notice

This Report (Report) was prepared by Ernst & Young LLP for Wales & West Utilities Ltd.

Ernst & Young LLP does not accept or assume any responsibility in respect of the Report to any readers of the Report (Third Parties), other than Wales & West Utilities Ltd.

To the fullest extent permitted by law, Ernst & Young LLP will accept no liability in respect of the Report to any Third Parties. Should any Third Parties choose to rely on the Report, then they do so at their own risk.

Ernst & Young LLP has not been instructed by its client, Wales & West Utilities Ltd, to respond to queries or requests for information from any Third Party and Ernst & Young LLP shall not respond to such queries or requests for information.

Further Ernst & Young LLP is not instructed by Wales & West Utilities Ltd to update the Report for subsequent events or additional work (if any) performed by Ernst & Young LLP. Accordingly, without prejudice to the generality of the foregoing, Ernst & Young LLP accepts no responsibility to any Third Party to update the Report for such matters.

Ernst & Young LLP reserves all rights in the Report.



**Ernst & Young LLP**  
1 More London Place  
London  
SE1 2AF

[ey.com](http://ey.com)

Anthony Legg  
Director  
Head of Power & Utilities,  
Economic Advisory

---

**M** +44 (0) 7753 300 520  
**E** [alegg@uk.ey.com](mailto:alegg@uk.ey.com)

Selcan Kayihan  
Assistant Director  
Head of Energy Networks & Retail,  
Economic Advisory

---

**M** +44 (0) 7552 271 320  
**E** [skayihan@uk.ey.com](mailto:skayihan@uk.ey.com)

Matt Corkery  
Partner  
Global Leader, Economic Advisory

---

**M** +44 (0) 7801 459 569  
**E** [mcorkery@uk.ey.com](mailto:mcorkery@uk.ey.com)

Sarah Williams  
Director of Regulation  
Wales & West Utilities Ltd  
Wales and West House  
Spooner Close  
Celtic Springs  
Coedkernew  
Newport  
NP10 8FZ

5<sup>th</sup> August 2020

Dear Sarah,

**Support for Net Zero related investment in RIIO-2**

In accordance with your instructions, we have performed the work set out in our engagement agreement dated 29<sup>th</sup> July 2020 (the "Engagement Agreement").

**Purpose of our report and restrictions on its use**

This report was prepared on the specific instructions of Wales & West Utilities Ltd. solely for its consideration of Ofgem's RIIO-2 Draft Determinations and should not be used or relied upon for any other purpose.

This report and its contents may not be quoted, referred to or shown to any other parties except as provided in the Engagement Agreement.

We accept no responsibility or liability to any person other than to Wales & West Utilities Ltd., or to such party to whom we have agreed in writing to accept a duty of care in respect of this report, and accordingly if such other persons choose to rely upon any of the contents of this report they do so at their own risk.

**Scope of work**

The nature and scope of the services, including the basis and limitations, are detailed in the Engagement Agreement.

Whilst each part of our report addresses different aspects of the work we have agreed to perform, the entire report should be read for a full understanding of our findings and advice.

Our work was completed on 5<sup>th</sup> August 2020. Therefore, our report does not take account of events or circumstances arising, or information made available, after 5<sup>th</sup> August 2020, and we have no responsibility to update the report for such events or circumstances or information.

Yours faithfully,

Ernst & Young LLP

# Introduction

- In June 2019, the UK Parliament legislated for a Net Zero greenhouse gas emissions target to be achieved by 2050 (“Net Zero target”). The UK’s pathway to achieving the Net Zero target has yet to be defined, but the Climate Change Act 2008 (2050 Target Amendment) Order 2019 enables the Government and regulator to introduce efficient and cost effective policies and regulations to support this goal.
- In support of the Net Zero target, Wales and West Utilities (WWU) developed its vision for a “Net Zero ready network” by 2035, and has identified the investments likely to be required during the RIIO-2 period to progress towards this vision. WWU’s vision and the impact of the associated investments are not limited to WWU’s gas distribution network, for example some of the proposed investments are aimed at supporting the decarbonisation of electricity.
- In December 2019, WWU submitted its RIIO-GD2 Business Plan to Ofgem as part of the price control determination process. WWU’s Business Plan included a proposal for a bespoke uncertainty mechanism, the “Net Zero review mechanism”, which would be used to fund investments required for the network to be Net Zero ready by 2035.
- Ofgem rejected the proposal in its RIIO-GD2 Draft Determination (DD) for WWU in July 2020, in favour of introducing its proposed Net Zero Re-opener<sup>1</sup> for RIIO-2. Ofgem also proposed a number of other re-openers in its DD in as part of a suite of Uncertainty Mechanisms. However, WWU is concerned that the proposed design of the re-openers will not support the investments needed for the network to be Net Zero ready by 2035.
- WWU remains committed to making its network to be Net Zero ready by 2035, and has commissioned EY to review Ofgem’s proposals for select RIIO-2 re-openers and mechanisms, including the Net Zero re-opener, and make recommendations to modify their design so the mechanisms can support small-scale investments aimed at making progress towards the Net Zero target that will not otherwise be funded.
- To support WWU in this aim, we have developed a short presentation setting out:
  1. WWU’s investment proposed to be delivered under its Net Zero uncertainty mechanism;
  2. Ofgem’s proposed re-openers and other mechanisms to support Net Zero related investment;
  3. The case for change and the objectives that would need to be met; and
  4. How the design of the re-openers could be adapted to support more Net Zero related investment to meet these objectives

1. A specific type of uncertainty mechanism that enables Ofgem to adjust energy network companies totex allowances in response to a change in pre-specified circumstances during the course of the price control

# WWU's investment proposed to be delivered under its Net Zero uncertainty mechanism

- WWU indicated that the following investments would be delivered under its proposed Net Zero uncertainty mechanism, in its Business Plan.<sup>1</sup> The details of these investments are continuing to evolve, hence WWU's proposal for them to be within scope of an uncertainty mechanism.

Investment		Work required	RIO-2 cost (£m) <sup>2</sup>	Annual cost (£m) <sup>2</sup>	Purpose/benefits of investment
Flexible generation	PRI upgrades <sup>3</sup>	23	1.7	0.3	<ul style="list-style-type: none"> <li>Investment to enable 1.5GW of gas engine flexibility</li> <li>Benefit (est.): £1.35bn</li> <li>Estimated benefit based on the cost saving from providing flexible generation through a new gas reciprocating engine compared to using battery storage</li> </ul>
	Pipelines for capacity and/or storage	85km	82.6	16.5	
	Below 7 bar reinforcement (MP and IP)	75km	29.7	6.0	
Green gas	Compressors	12	16.6	3.3	<ul style="list-style-type: none"> <li>Investment to enable 480,000 consumers to decarbonise their heating system</li> <li>Benefit (est.): £480 p.a. per customer -</li> <li>Estimated benefit based on customer bill savings. There are also carbon cost savings from the use of green gas</li> </ul>
	Smart systems	12	1.6	0.3	
Gas vehicles	Reinforcement	16km	6.3	1.3	<ul style="list-style-type: none"> <li>Investment to facilitate the connection of compressed methane gas (CMG) filling stations</li> <li>Benefits from avoided carbon and NO<sub>x</sub> vehicle emissions</li> </ul>
System operability	New IT systems and functionality		1.6	0.3	<ul style="list-style-type: none"> <li>Investment will enhance impact on investments supporting flexible generation, green gas, and gas vehicles</li> </ul>
	Increased manpower	Support Net Zero activities	0.8	0.2	
GD3 repex preparation	Recruitment and training		10	2	<ul style="list-style-type: none"> <li>Investment to deliver a low cost, low carbon network</li> </ul>

- Since submitting its Business Plan, WWU have identified another investment that would have been within scope of its Net Zero uncertainty mechanism if the proposed mechanism had not been rejected by Ofgem.

Investment		Work required	RIO-2 cost (£m)	Annual cost (£m)	Purpose/benefits of investment
South Wales Industrial Cluster		Feasibility study and FEED	16.0	3.2	<ul style="list-style-type: none"> <li>Investment to respond to the requirements of net zero industry in South Wales</li> </ul>

1. Wales & West Utilities Business Plan for 2021 - 26, RIO-GD2  
2. Figures are rounded  
3. Included in WWU's base totex proposals

# Ofgem's proposed re-openers and other mechanisms to support Net Zero related investment

- Ofgem's common design parameters for re-openers are:<sup>1</sup>
  - Re-opener application window: last week in January;
  - Application requirements: Ofgem will provide additional detail where possible in licence conditions and guidance;
  - Who can trigger re-opener: Ofgem can trigger a re-opener at any time during price control; and
  - Materiality threshold: For each individual re-opener application, a materiality threshold will be set such that allowances will only be adjusted if the changes to allowances resulting from Ofgem's assessment, multiplied by the Totex Incentive Mechanism (TIM) incentive rate applicable to that licensee, exceeds a threshold of 1% of annual average base revenues (as set out in Final Determinations).<sup>2</sup> Some re-openers may be aggregated to meet the materiality threshold, subject to specific criteria.<sup>3</sup>
- The table below (continuing on the following slide) sets out Ofgem's proposed re-openers that could support GDNs' Net Zero related investments.<sup>1</sup> We have highlighted where the design of the re-openers diverges from the common design parameters listed above.

Re-opener	Purpose	Re-opener application window	Who or what triggers the re-opener	Materiality threshold
Net Zero	To introduce an increased level of adaptability into the RIIO-2 price control by providing a means to amend the price control in response to changes connected to the meeting of the Net Zero carbon target, which have an effect on the costs and outputs of network licensees	Any time throughout the RIIO-2 price control	As per common design parameter	As per common design parameter

1. RIIO-2 Draft Determinations - Core Document
2. Under Ofgem's common design parameters for re-openers, WWU's materiality threshold would be ~£4m (2018/19 prices) each year:
  - Ofgem set an allowed baseline totex of ~£1bn (2018/19 prices) for WWU for the RIIO-GD2 period in its DDs.
  - This totex allowance equates to ~£200m per year on average, and 1% of this is ~£2m.
  - In order for a change to allowances resulting from Ofgem's assessment, multiplied by the TIM (which is 49.6% for WWU), to exceed ~£2m, the change in the allowances would have to be at least ~£4m (2018/19 prices).
3. Ofgem proposes that a re-opener can be considered for an aggregation process if all of the following criteria are met:
  - each individual re-opener application must exceed a minimum individual materiality threshold, once the changes to allowances resulting from our assessment, are multiplied by the TIM incentive rate;
  - when re-opener applications are aggregated, the changes to allowances resulting from Ofgem's assessment, multiplied by the TIM incentive rate exceeds a higher threshold; and
  - any re-opener that exceeds the proposed common materiality threshold for individual re-opener applications by itself is excluded from the aggregation process

# Ofgem's proposed re-openers and other mechanisms to support Net Zero related investment

## ➤ Ofgem's proposed re-openers that could support Net Zero related investment (continued):<sup>1</sup>

Re-opener	Purpose	Re-opener application window	Who or what triggers the re-opener	Materiality threshold
Heat policy	To respond to policy-driven requirements that support a transition to low carbon heat	Last week in January 2022 and last week in January 2023	Triggered by changes in: <ul style="list-style-type: none"> <li>the quality and composition of gas, as per the Gas Safety (Management) Regulations 1996 or Gas (Calculation of Thermal Energy) Regulations 1996;</li> <li>the connection charging arrangements for distributed entry connections and for domestic premises;</li> <li>the obligations on GDNs to include the promotion of energy efficiency amongst gas customers implemented by the making of an order under section 33BC of the Gas Act, 1986;</li> <li>the future role of gas networks in the heat sector as determined by government policy that may result in parts of the existing network either being decommissioned or made ready to convey hydrogen</li> </ul>	As per common design parameter
New large loads	To potentially recover network reinforcement costs due to the connection of new large industrial loads	Last week in January 2022	Triggered by: <ul style="list-style-type: none"> <li>Passing the Economic Test;<sup>2</sup> and</li> <li>Requirement of specific reinforcement upstream of the Connection Charging Point not chargeable to the new load</li> </ul>	1% of annual base revenues
Coordinated Adjustment Mechanism (CAM)	To reallocate activity and associated allowances from one licensee's price control to another	Ofgem has not yet set out its proposal on the application window	Triggered by network companies: <ul style="list-style-type: none"> <li>Applications should come from a single licensee, but must include a statement of agreement between the licensee who was originally assigned the responsibility and associated revenues for the output or project and the licensee who is able to deliver it with greater benefits to consumers</li> </ul>	None

1. RIIO-2 Draft Determinations – Gas Distribution Annex, RIIO-2 Draft Determinations - Core Document

2. The Economic Test is a financial assessment tool that is designed to identify new connections where the level of investment would be considered 'uneconomic', and so avoids existing customers subsidising the new firm connection



# Ofgem's proposed re-openers and other mechanisms to support Net Zero related investment

➤ Ofgem's RII0-2 DDs also contain other mechanisms that could be used to support Net Zero related investment.<sup>1</sup>

Mechanism	Purpose	Scope	Characteristics
Strategic Innovation Fund (SIF)	To support the transition to Net Zero, alongside the Net Zero re-opener	Network activities that focus on achieving Net Zero targets and, in particular, on related strategic innovation challenges set by Ofgem	<ul style="list-style-type: none"><li>• Funding approach: Flexible upward adjustment of network charges at time of relevant decision, subject to a process for evaluating funding bids and assessing cost efficiency</li><li>• Materiality threshold: £5m per project</li></ul>
Network Innovation Allowance (NIA)	To fund innovation relating to the energy system transition and support for consumers in vulnerable situations.	Projects should focus on the energy system transition or addressing consumer vulnerability, and deliver net benefits for consumers within the sector. Commercially available technologies are not eligible for the NIA	<ul style="list-style-type: none"><li>• Funding approach: companies have a single 'use it or lose it' allowance for the duration of RII0-2 (approximately £180m split between the TOs and GDNs). Funding is conditional on the implementation of an improved, industry-led reporting framework by the start of RII0-2</li><li>• Additional quality assurance measures to be introduced, such as a peer review or independent audits of projects upon completion</li></ul>

1. RII0-2 Draft Determinations - Core Document



# Ofgem's proposed re-openers and other mechanisms would not support WWU's proposed Net Zero related investment

- Ofgem's proposed re-openers and other mechanisms that can support Net Zero related investment would not support WWU's Net Zero related investments, as illustrated by the table below.
- Our high level assessment is based on a comparison of the scope and annual cost of WWU's proposed investments, and the purpose and characteristics of the re-openers and other mechanisms that can support Net Zero.

## High level assessment of the applicability of Ofgem's relevant proposed re-openers and mechanisms to WWU's Net Zero related investments

Investment		Net Zero re-opener	Heat policy re-opener	CAM re-opener	New Large Loads re-opener	SIF	NIA
Flexible generation <sup>1</sup>	Pipelines for capacity and/or storage	✗ Re-opener may be appropriate for these projects, but dependency on Ofgem to trigger re-opener could delay investment	✗ Projects do not relate to heat policy	✗ Re-opener may be appropriate for these projects, but requires agreement from the other relevant licensee which may not be forthcoming in a timely manner	✗ Re-opener may be appropriate for these projects, but single application window could delay investment	✗ Not categorised as an innovation projects by WWU	✗ Not categorised as an innovation projects by WWU
	Below 7 bar reinforcement (MP and IP)						
Green gas	Compressors	✗ Projects individually do not meet Net Zero materiality threshold  ✗ Most projects too small to be eligible for aggregation	✗ The trigger for the re-opener requires changes to gas regulation, connection charging arrangements or policy, which is not relevant to these projects	✗ Projects do not involve the delivery of another energy company's deliverable	✗ Project does not relate to new connection		
	Smart systems				✗ Projects individually do not meet Large Load threshold ✗ Most projects too small to be eligible for aggregation		
Gas vehicles	Reinforcement						
System operability	New IT systems and functionality						
	Increased manpower						
GD3 repex preparation	Recruitment and training				✗ Projects do not relate to new connection		
South Wales Industrial Cluster							

1. Does not include PRI upgrades, which were included in WWU's base totex proposal

# Ofgem's proposed re-openers and other mechanisms would not support WWU's proposed Net Zero related investment

## The case for change

The table on the previous slide indicates that there are some gaps in the support for Net Zero related investment from Ofgem's relevant proposed re-openers and mechanisms. Hurdles to some projects being supported are:

- Materiality threshold set higher than the value of the investment;
  - Requirement for change in government policy or specific energy network regulations in order for some re-openers to be triggered; and
  - Need for investment to meet Ofgem's definition of innovation to be eligible for funding through innovation mechanisms.
- 
- The assessment indicates that smaller Net Zero investment projects, that are not innovative and cannot be included in baseline totex (due to some volume and timing uncertainty), but could proceed under current government policy, do not have a route to funding during the RIIO-2 period.
  - Furthermore, Ofgem's exclusive right to trigger the Net Zero re-opener could unnecessarily delay investment as network companies will have to make representations to Ofgem about a relevant change in circumstances in order to prompt Ofgem to undertake a series of consultations before amending the network companies' licences to implement any adjustments deemed appropriate.
  - RIIO-2, as proposed by Ofgem in its DDs, does not provide network companies with an incentive<sup>1</sup> to undertake these types of investment without a route to funding through the regulatory framework.
  - WWU had told us that it will not undertake its Net Zero related investment without funding support through the price control. WWU have provided evidence that the benefits of these investments exceed the costs (see slide 4).
  - The UK's pathway to achieving the Net Zero target has yet to be defined, and the size of the challenge means there is no guarantee that the target will be achieved. National Grid's latest Future Energy Scenarios (FES) publication sets out "four different credible pathways for the future of energy over the next 30 years", but one of these pathways doesn't achieve the Net Zero target as the pace of decarbonisation is not fast enough and there is not enough societal change.
  - As such, there is no clear rationale for excluding investment (by WWU or other networks). that is net beneficial for customers and helps to deliver the Net Zero target, on the grounds that the projects do not meet all of the administrative criteria for any of the re-openers or mechanisms included in Ofgem's RIIO-2 DDs. Targeted amendments to the design of Ofgem's relevant proposed re-openers and mechanisms, that are in keeping with the principles of the RIIO-2 regulatory framework, could enable these benefits to be realised.

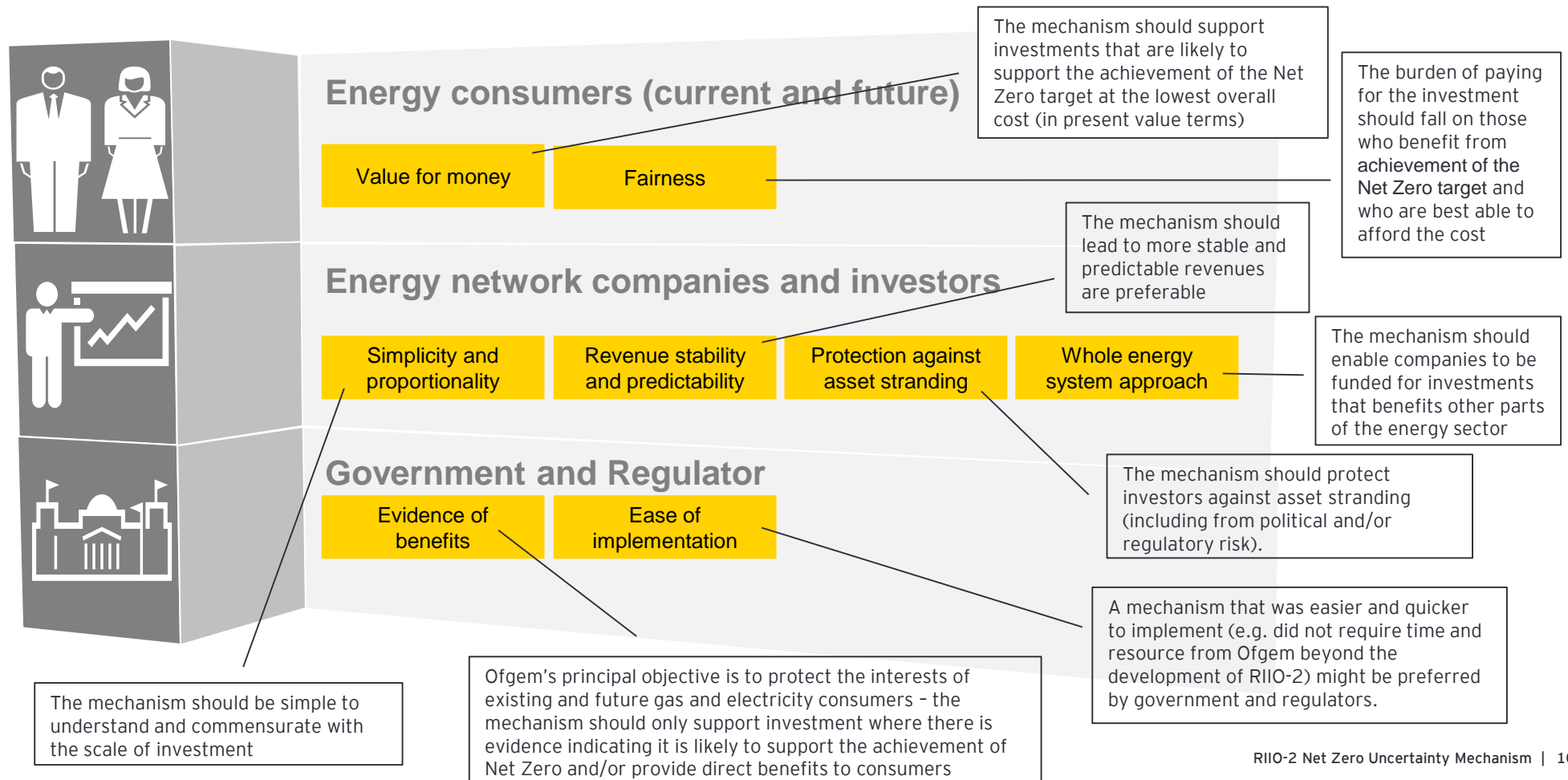
## Key conclusion

**WWU's proposed Net Zero related investments, which are expected to deliver net benefits for customers, will not proceed without amendments to Ofgem's relevant proposed re-openers and mechanisms.**

1. Ofgem's proposals for RIIO-2, as set out in the DDs, have reduced network companies' ability to outperform and earn higher returns, which could have been used by network companies to fund investment at their discretion

# How can the design of the re-openers be amended to support more Net Zero related investment?

- It is clear from the preceding discussion that WWU's Net Zero projects deliver net-benefits to customers, but they are not all supported by Ofgem's relevant proposed re-openers and mechanisms. We have therefore explored how they could be amended.
- Any amendments to Ofgem's relevant proposed re-openers and mechanisms should meet the objectives of energy customers, energy network companies and investors, and the government and regulators. We have identified objectives for each of these stakeholder groups (set out below) in order to assess amendments to Ofgem's relevant proposed re-openers and mechanisms.



# How can the design of the re-openers be amended to support more Net Zero related investment?

- In order to broaden the support for Net Zero related investment in RIIO-2 we have considered how the design of Ofgem's relevant proposed mechanisms could be amended.
- Options for how the design of Ofgem's relevant proposed mechanisms could be adapted should target the inclusion of investment that is:
  - Small scale (i.e. below the materiality threshold set as per Ofgem's common parameters for re-openers);
  - Not innovative;<sup>1</sup> and
  - Subject to uncertainty relating to timing or volume, but not government policy or regulation.
- Given this we have focused our work on Ofgem's proposed relevant re-openers (Net Zero, Heat Policy, New Large Loads and CAM), and not the innovation related mechanisms.
- In developing options for amendments to the design of Ofgem's relevant proposed re-openers, there are a number of design elements to consider.

	Examples of options for change
Re-opener window	Increase frequency of when a re-opener can be triggered
Trigger	Include evidence of change in circumstances, e.g. clarity of government ambition, change in the needs of those connected or wanting to connect to the network, change in customer behaviour
Application process	Explicit pre-determined criteria for eligible investment, applicants to provide evidence of benefits
Who can trigger re-opener	Network companies can trigger re-opener
Materiality threshold	Reduce materiality threshold
Nature of funding	Apply for incurred and projected costs

1. Not innovative in terms of meeting the criteria for funding under the NIA and SIF

# How can the design of the re-openers be amended to support more Net Zero related investment?

- Considering the range of choices for each of the design elements, we have developed proposals for amendments to Ofgem's relevant re-openers with the aim of broadening support for Net Zero related investment. The amendments to the re-openers would apply to all GDNs equally.

	Amendments to the Net Zero re-opener	Amendments to the Heat Policy re-opener	Amendments to New Large Loads re-opener	Amendments to the CAM
Re-opener window	<ul style="list-style-type: none"> <li>No amendment - as per Ofgem RIIO-2 DD proposals</li> </ul>	<ul style="list-style-type: none"> <li>No window - apply at anytime throughout the year</li> </ul>		
Trigger	<ul style="list-style-type: none"> <li>Re-opener can be triggered with evidenced change in circumstances, e.g. clarity of government ambition, change in the needs of those connected or wanting to connect to the network, change in customer behaviour</li> </ul>			<ul style="list-style-type: none"> <li>No amendment - as per Ofgem RIIO-2 DD proposals</li> </ul>
Application process	<ul style="list-style-type: none"> <li>Ofgem to set explicit criteria for eligible investment for smaller projects (e.g. those smaller than the materiality threshold proposed in the DDs) at the beginning of RIIO-2</li> <li>Applicants to provide evidence of actual or projected benefits of each project in the application with a pre-determined format (administrative burden to be proportionate to size of funding request)</li> <li>Applications to be assessed by Ofgem in line with pre-determined procedures and within a set time period</li> </ul>		<ul style="list-style-type: none"> <li>Lighter touch application process to be adopted for smaller scale investments - applicants to provide evidence of actual or protected benefits (environmental, societal) in application, in a pre-determined format, and applications to be assessed by Ofgem in line with pre-determined procedures within a set time period</li> </ul>	
Who can trigger re-opener	<ul style="list-style-type: none"> <li>Network companies can trigger re-opener</li> </ul>	<ul style="list-style-type: none"> <li>No amendment - as per Ofgem RIIO-2 DD proposals</li> </ul>	<ul style="list-style-type: none"> <li>Network companies can trigger re-opener</li> </ul>	<ul style="list-style-type: none"> <li>Network companies and key stakeholders can trigger re-opener</li> </ul>
Materiality threshold	<ul style="list-style-type: none"> <li>Materiality threshold lowered to 1% of average base allowance</li> <li>Aggregation allowed - no criteria on the size of the individual projects being aggregated</li> </ul>		<ul style="list-style-type: none"> <li>1% of average base allowance (as per Ofgem's proposal)</li> <li>Aggregation allowed - no criteria on the size of the individual projects being aggregated</li> </ul>	<ul style="list-style-type: none"> <li>No amendment - as per Ofgem RIIO-2 DD proposals</li> </ul>
Nature of funding	<ul style="list-style-type: none"> <li>Network companies can apply for funding for incurred and projected costs</li> <li>Network companies can apply for funding to undertake work on their network that positively impacts another part of the energy sector</li> <li>Incurred and projected costs to be included in totex, aligned to when cost incurred</li> </ul>			<ul style="list-style-type: none"> <li>Network companies can apply for funding for incurred and projected costs</li> <li>Incurred and projected costs to be included in totex, aligned to when cost incurred</li> </ul>

# How the amended design of the re-openers meets the objectives

- The table below sets out our assessment of amendments to Ofgem's relevant re-openers (set out on the previous slide) compared to Ofgem's proposals set out in the DDs (summarised on slides 5 and 6), against stakeholders' objectives (set out on slide 10).

	Amendments to the Net Zero re-opener	Amendments to the Heat policy re-opener	Amendments to the New Large Loads re-opener	Amendments to the CAM	<b>Summary of assessment of proposed amendments to Net Zero, Heat Policy and New Large Loads re-openers</b> <ul style="list-style-type: none"> <li>➤ Reducing the threshold and relaxing the criteria for aggregation could unlock small cost-effective activity that supports the achievement of the Net Zero target</li> <li>➤ Funding network activities that supports the decarbonisation of another part of the energy sector can be cost-effective</li> <li>➤ The proposed amendments provide network companies with a simpler, more proportionate route to fund Net Zero related investment, that can funding with the same protections</li> <li>➤ The proposed amendments will require Ofgem to provide more upfront guidance (for the Net Zero and Heat Policy re-openers) and a different approach to assessing applications for smaller investments</li> </ul>
<b>Energy Consumers</b>					
Value for money	●	●	●	●	
Fairness	●	●	●	●	
<b>Energy networks and investors</b>					
Simplicity and proportionality	●	●	●	●	
Revenue stability and predictability	●	●	●	●	
Protection against asset stranding	●	●	●	●	
Whole energy system approach	●	●	●	●	
<b>Government and Regulator</b>					
Evidence of benefits	●	●	●	●	
Ease of Implementation	●	●	●	●	
<b>Key</b> <ul style="list-style-type: none"> <li>● Less contribution to objective compared to Ofgem's DD proposal</li> <li>● No difference in contribution to objective compared to Ofgem's DD proposal</li> <li>● More contribution to objective compared to Ofgem's DD proposal</li> </ul>					
<b>Summary of assessment of proposed amendments to CAM re-opener</b> <ul style="list-style-type: none"> <li>➤ Amending the application process for smaller investment so requirements are proportionate will reduce the administrative burden on the network companies</li> <li>➤ Increasing the scope of organisations which can trigger the re-opener could unlock more cost-effective activity that supports the achievement of the Net Zero target</li> <li>➤ The proposed amendments will require Ofgem to adopt a different approach to assessing applications for smaller investments</li> </ul>					

## Key conclusion

Based on the assessment presented above we recommend that changes should be made to Ofgem's RIIO-GD2 re-openers to unlock additional Net Zero related investments.

**EY | Assurance | Tax | Transactions | Advisory**

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](https://ey.com).

**Ernst & Young LLP**

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2019 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

[ey.com](https://ey.com)