

**Ofgem Future Insights:
The Future of Networks – RIIO-2**

Breakout C: Shaping the Use of Networks

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Responding to changes in how networks are used

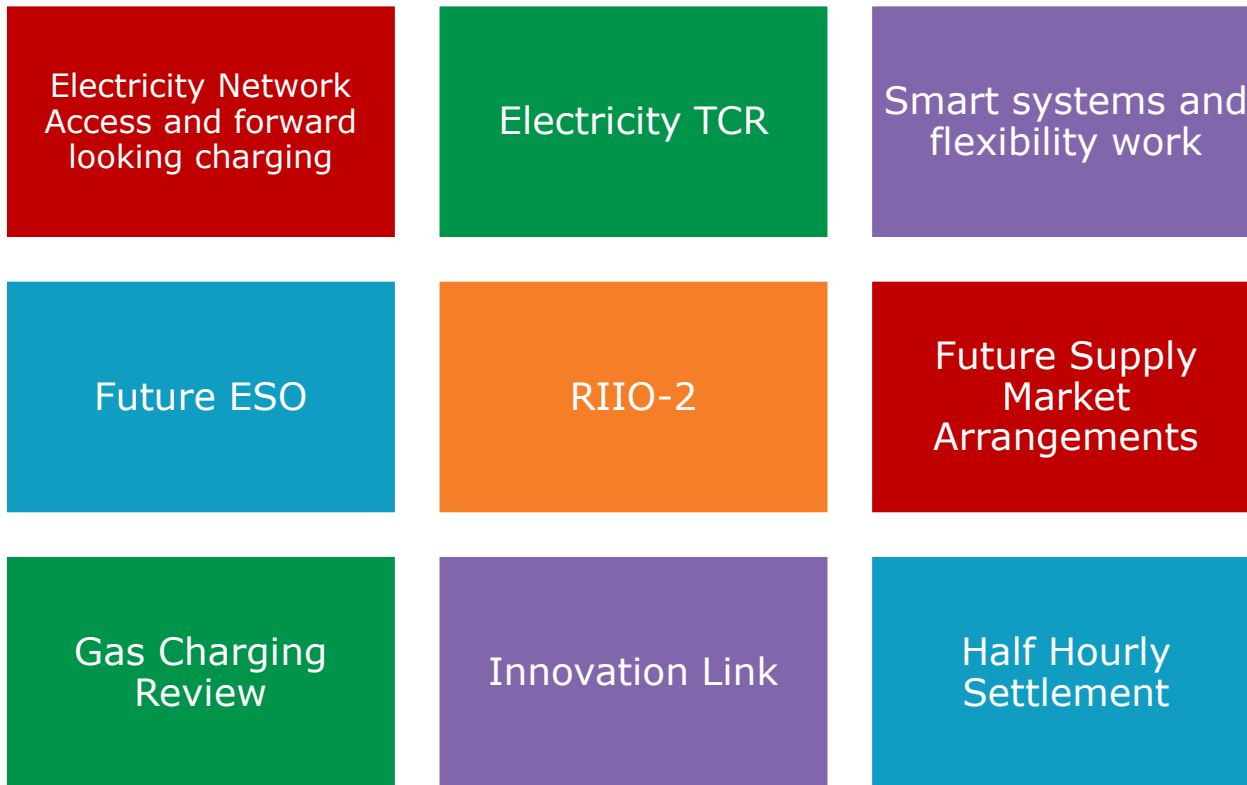
Network companies have to help enable the energy system transition, but we also have to guard against the uncertainty that these changes bring.

We will design RIIO-2 so that companies develop their networks to respond to the changes happening across the energy system, but we will put controls in place to protect consumers from the risk that the future could turn out differently to what we currently think.

- Technological change, behavioural change, decarbonisation, innovation and increased flexibility are driving a transition in the energy system
- Energy is being produced, transported, stored and supplied in different ways
- Traditional system boundaries and roles are shifting
- Networks companies will need to respond to manage this transition and to adapt to future uncertainty
- The price control framework should facilitate and incentivise this response



Managing the Energy Transition cuts across and overlaps many of Ofgem's major workstreams:



- Summary of consultation proposals:
 - Propose to set a **price control length** of 5 years, but challenge the companies to make a compelling case to set some allowances for longer
 - Propose to focus on the levers within the price control that could support the delivery of **whole system outcomes**, but do not consider it necessary to align the start of the electricity transmission and electricity distribution price controls
 - Separate the **electricity SO's price control** from NGET's TO price control and consulting on potential remuneration approaches for the SO
 - Want to ensure that networks are **efficiently utilised and appropriately invested in** to meet current and future needs – seeking views on how this can be achieved

Considering the potential role network operators, including system operators, could play in encouraging **end-use energy efficiency**



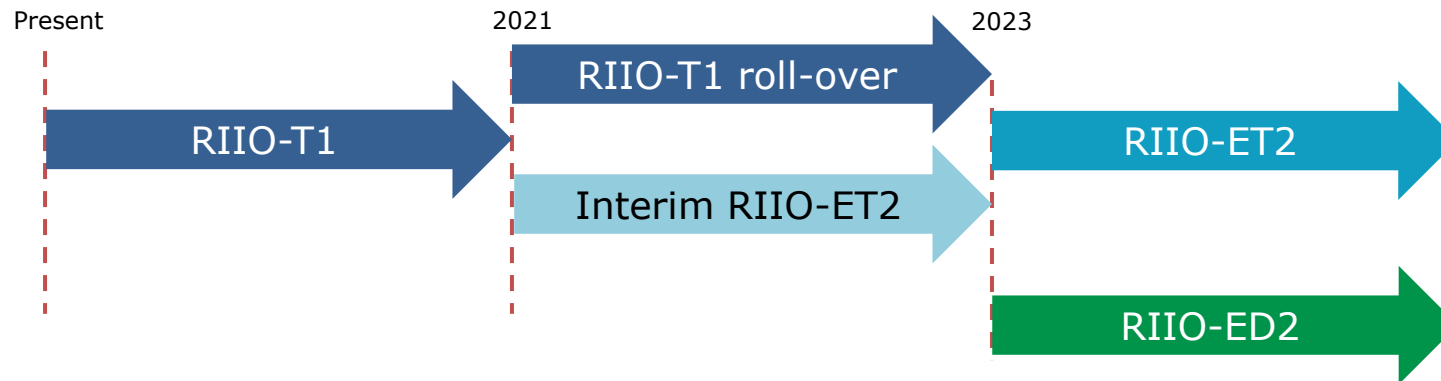
- The energy transition will necessitate changes in how the system is operated, how the network is developed, and how users interact with energy
- It will be important to ensure that, as part of this transition, the energy system as a whole is effectively coordinated to deliver best value for consumers ('whole system outcomes')
- We are seeking to explore this further with stakeholders to understand how the price control framework can facilitate these outcomes



- Identified benefits of this approach in our joint Ofgem-BEIS 'Smart Systems and Flexibility Plan' and in our 'Strategy for regulating the future energy system'
- Theoretical examples of whole system solutions could include:
 - Distribution solutions reducing requirements for transmission investment to manage constraints
 - DNOs providing voltage management services to the SO, DSR procurement as a response to network constraint
 - Heating electrification to replace required gas network repex spend
- Network companies already have duties / incentives which contribute to these outcomes
- Currently engaging with network companies and undertaking work within RII0-1 to consider the extent to which the framework enables or acts as a barrier to whole system outcomes



- Considered the need for a review of the structural features of the price control which might facilitate or create barriers for whole system outcomes
- In particular we have considered the incremental case for aligning specific price control timings – the start dates of RIIO-ET2 and RIIO-ED2



- Current view that this approach might provide better coordination of planning processes between certain parties, but that the incremental benefits are likely to be insufficient compared to the challenges and risks of this approach, eg perpetuating RIIO-1 forecasting risk or implementation challenges



- Need to consider a range of price control (and non-price control) features to assess whether these facilitate or act as a barrier to whole system outcomes
- Including, but are not limited to:

System planning processes	Investment and innovation funding processes
Outputs, obligations, roles and liabilities	Incentives and financial packages
Data access and communication	Standardisation and interoperability
Access and charging arrangements	Approach to competition

- There may be benefit on prioritising elements of this review, to maximise timely impact



1. Do you agree with our consultation position on alignment?
2. Is this the right list?
3. Which areas do you consider we should be prioritising to maximise impact, and why?



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