Business, Energy and
Industrial Strategy Committee
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Dear Jonathan,

Thank you for giving evidence to the Committee on RIIO 2. We understand that the RIIO 2 draft determinations are the result of a long and technical process with the potential to significantly impact energy networks over the next five years. Many of these impacts - including reaching net zero, maintaining energy security, and protecting consumer bills - are key areas of ongoing interest for the Committee and we appreciate your engagement on these matters.

We fully understand Ofgem's position that the price control process is about achieving balance between investing in the networks, for security and decarbonisation, and protecting customers. We were glad to hear that since the draft determinations were published in July, consultation with stakeholders and the provision of more detailed evidence has allowed ongoing discussion on how best to strike this balance. As such we welcome your indication that some of the concerns we had received in evidence, such as on energy security, consumer vulnerability funding, and the transparency of the decision-making process, are being reconsidered and will likely be addressed in your final declaration.

However, the Committee continues to share some of the concerns raised by National Grid, Citizens Advice, and other stakeholders who submitted written evidence.

On decarbonisation, your personal commitment to net zero, and the publication of Ofgem's Decarbonisation Action Plan to support this, is valued. However, we are concerned that this commitment does not transfer sufficiently into the price controls.

When making investment decisions for net zero, we understand that the impact on consumers is at the forefront of Ofgem's consideration. We agree with the prevailing opinion summarised by the NAO that RIIO 1 was over generous and that Ofgem should not give in to any pressure that would allow RIIO 2 to be the same. Scrutinising spending to protect consumers is vital and must continue. However, it is also vital that these considerations take into account the protection of future, as well as present consumers.

While some of the pathways and policies to deliver decarbonisation are yet to be decided, net zero is a policy certainty. The UK target is enshrined in legislation, the devolved administrations are committed to meeting it, and many of the technologies needed, such as renewables, are well established. As you said yourself, consumers are happy to pay for net zero if the spending is justified. Slower investment now may only increase costs later, impacting future consumers. As such, the certainty of net zero must be better recognised in the price control. Ofgem should review the provision of net zero funding to provide the clarity and confidence needed to deliver the necessary investment. Ofgem should also continue to work with the devolved administrations to deliver their net zero plans.

The Committee welcomes your remarks that proposals for uncertainty mechanisms are too slow and not fit for purpose and as such will be reconsidered for the final determinations. All stakeholders agreed that there should be an efficient and agile process that can allocate new funding as needed throughout the price control. Narrow application windows, a slow process, and insufficient pre-construction funding can all impact the delivery of essential infrastructure. This needs to change to give the clear signal needed to mobilise investment into critical net zero projects while maintaining robust scrutiny.

On vulnerability, there was clear agreement between witnesses that there is value in funding support for vulnerable customers through the price control, and that the need for this support has sadly increased due to the coronavirus pandemic. The Committee shares the concerns expressed by Citizens Advice and National Energy Action that the draft determinations do not go far enough on this point. New approaches, innovation and training are key aspects of delivering this support, and it is important that, as you mentioned, the current funding outlined in the draft determinations is revisited.

As such, we would urge you to consider the following when making your final determinations:

- The balance between funding investment and protecting consumers from overcharging is vital. While we agree that previous price controls were overgenerous, and Ofgem should not allow this error to be repeated, we also urge Ofgem to fully consider future as well as current consumers. Delivering net zero and energy security is essential, and delaying necessary investments may only increase costs in future.

- The process for allocating additional funding through uncertainty mechanisms needs to be made more efficient. Narrow application windows, a slow process, and insufficient pre-construction funding can all impact the delivery of vital infrastructure. The Committee welcomes your recognition that this is not currently fit for purpose and urges improvements in the final determinations.

- The current funding for vulnerable customers is insufficient, especially in light of the coronavirus pandemic. We welcome your recognition of this and urge that the funding is rectified in the final determinations. with additional and flexible support, that can meet the needs of the vulnerable during the price control period.

Additionally, just as you are learning lessons from RIIO 1, it is important that lessons are also learnt from the RIIO 2 process. As was put to you in the session, a repeated view expressed in the written evidence received from stakeholders was that the current process had not been transparent enough, and Ofgem had not done enough to justify its decisions on what funding was approved or rejected. We welcome your reassurance that engagement is important to Ofgem, and understand that the quality of evidence received for the draft determinations also impacted the process. But to encourage the healthy engagement of stakeholders in future price controls, we urge you to assess and improve the transparency of the process.

We recognise that several other concerns raised are the responsibility of Government, rather than Ofgem. We agree with the view that net zero should be part of Ofgem's legal remit. Minister Kwasi Kwarteng has told us a change in Ofgem's remit is under consideration. The need for a just transition, and whether putting policy costs on consumer bills is a fair way to achieve this, and the potential value that competition could bring to the networks, are also topics of interest to the Committee. We recognise the need for Government action on these areas and will keep them under consideration going forward.

Finally, we hope that the final determinations adequately address all stakeholder concerns and prevent a repeat of the Competition and Market Authority appeal currently ongoing for the water industry. If the proposals are challenged with the CMA, we urge you to ensure that adequate resources are dedicated to the continued operation of the price control throughout the challenge process so that there is no adverse impact on the networks.

Darren Jones

DARREN JONES MP
CHAIR, BUSINESS, ENERGY AND INDUSTRIAL STRATEGY COMMITTEE