Making a positive difference
for energy consumers

Mr Darren Jones MP
Chair, Business, Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

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Dear Darren,

Thank you for the opportunity to discuss our RIIO-2 network price controls with your Committee last November. I said that I would write to you after our Final Determinations – which were published on 8 December – to address the important points you and other Committee members made.

At the outset, I want to emphasise that Ofgem is fully committed to playing its part towards the delivery of the UK's net zero targets. These targets provide a clear framework to drive decarbonisation. As our decarbonisation action plan made clear, Ofgem has a pivotal role in paving the way for the energy sector to decarbonise – and I am confident our final determinations for RIIO-2 reflect this.

Overall, the price controls deliver a substantial investment programme in our energy infrastructure, with the aim of helping to deliver our climate change commitments, to maintain the security of our energy supply and to ensure the system can continue to adapt, to meet the UK's Net Zero targets. In total, the Final Determinations set out £30 billion in upfront funding, with at least £10 billion more available for future green energy projects where needed. This overall package represents an unprecedented level of future funding.

In your letter, you highlighted three particular issues, which I would like to address in turn below.

First, you noted the importance of striking the right balance between funding investment and protecting consumers from overcharging. Compared to our proposals at Draft Determinations, we have increased the upfront funding to companies in the Final Determinations by 20%.

This reflects that – following our challenge to them – network companies submitted significantly higher quality evidence on their spending plans, enabling us to green-light more funding for crucial services, maintenance, upgrades and repairs.

Alongside this additional funding, we sought greater efficiency from companies and set returns to shareholders in line with current market levels – ensuring costs are kept as low as possible for consumers.

Second, regarding the process for allocating additional funding through uncertainty mechanisms. Whilst we have allowed the vast majority of the upfront net zero funding that the network companies sought, we have also been clear that we are prepared to allow more funding in green energy projects over the lifetime of the network price controls – potentially £10 billion or more where needed.

You rightly highlighted that this will require flexible uncertainty mechanisms. Over the last few months we have worked closely with network companies to develop and streamline our processes. This will enable allowances to flex sufficiently quickly to ensure the investment needed whilst protecting providing value for money for consumers.

Third, you emphasised the importance of support for vulnerable consumers. There will be around £132 million for consumers in vulnerable situations, including a £60 million vulnerability and carbon monoxide safety allowance – which we have doubled in value from our Draft Determinations proposals.

This allowance will enable companies to set up a range of vital projects to ensure that consumers in vulnerable situations are protected, such as ensuring that consumers on the priority services register are known across the different utility providers, as well as supporting essential boiler repairs. We have also provided funding to help fuel poor households connect to the gas network to access affordable heating.

In refining our proposals in these ways, we have listened carefully to the feedback that we received following our Draft Determinations. Our Final Determinations set out not just our decisions, but also the rationale for them, and how they were informed by stakeholder responses, including the feedback from the Challenge Group and company Consumer Engagement Groups and User Groups.

As a result, I believe that the RIIO-2 network price controls will deliver a green and secure energy system at a fair price for consumers. In reaching our final decisions, we aimed to strike the right balance and to meet all of our statutory duties. In general, the possibility of an appeal by network companies cannot divert us from our statutory duties, which require us to come to an independent decision, taking into account the feedback we have received, in the best interests of existing and future consumers.

I have been in regular discussions with the CEOs of network companies and I believe there is a common understanding of the need for us to continue to work together in a constructive way, in all circumstances, and put in place the necessary investment on the path to our Net Zero goals.

At Ofgem, we are absolutely committed to continuing to play a full part in ensuring the country continues to benefit from a green and secure energy system at a fair price for consumers.

I hope this further information will be helpful to the Committee and I would be keen to meet with you soon on this and wider Ofgem work.

Yours sincerely,

Jonathan Brearley
Chief Executive