

Akshay Kaul
Director, Network Price Controls
The Office of Gas and Electricity Markets
10 South Colonnade,
Canary Wharf,
London,

12/08/2020

Energy UK Response: Contingency Plans for RIIO-2

Dear Mr Kaul,

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We welcome the establishment of a contingency plan for RIIO-2, given the ongoing uncertainty across GB. Throughout the past 6 months, Energy UK has taken on a coordination role for industry input into BEIS and Ofgem activity regarding COVID-19. Energy UK agrees that establishing a process to mitigate for potential further delays caused by COVID-19 is a sensible and necessary approach.

Energy UK would, however, note the need to ensure that interdependencies are recognised and mitigating action taken to avoid unintended consequences. The most striking concern is the potential impact of the delay on costs for retailers. In the context of COVID-19 and the wider sustainability of the energy retail market, accuracy within the price cap is vital.

If the contingency plan results in network costs on energy bills being established in March, this will fall past the expected determination for the next price cap period. The SVT price cap is due to be set for Apr-Sept 2021 in February, and cannot be set accurately if network charges are determined in March.

This highlights an existing issue relating to uncertainty caused by resetting of allowances at the start of a new price control. To reliably reflect the level of network charges to customers, suppliers require certainty and some forward notice over these charges. To manage this uncertainty at the last regulatory settlement (RIIO-ED1), revenues for the first year of the price control were set at the Draft Determination stage. Ofgem should confirm, as soon as possible, if April 2021 RIIO2 base revenues will be based upon Draft Determinations.

We ask that Ofgem create an additional piece to set out potential regulatory interdependencies and impacts of the RIIO-2 COVID contingency plan, publishing ahead of any decision to adopt the plan.

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This is a broad industry response, and individual members may have their own views. We welcome any questions on the below contact details.

Kind Regards,

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